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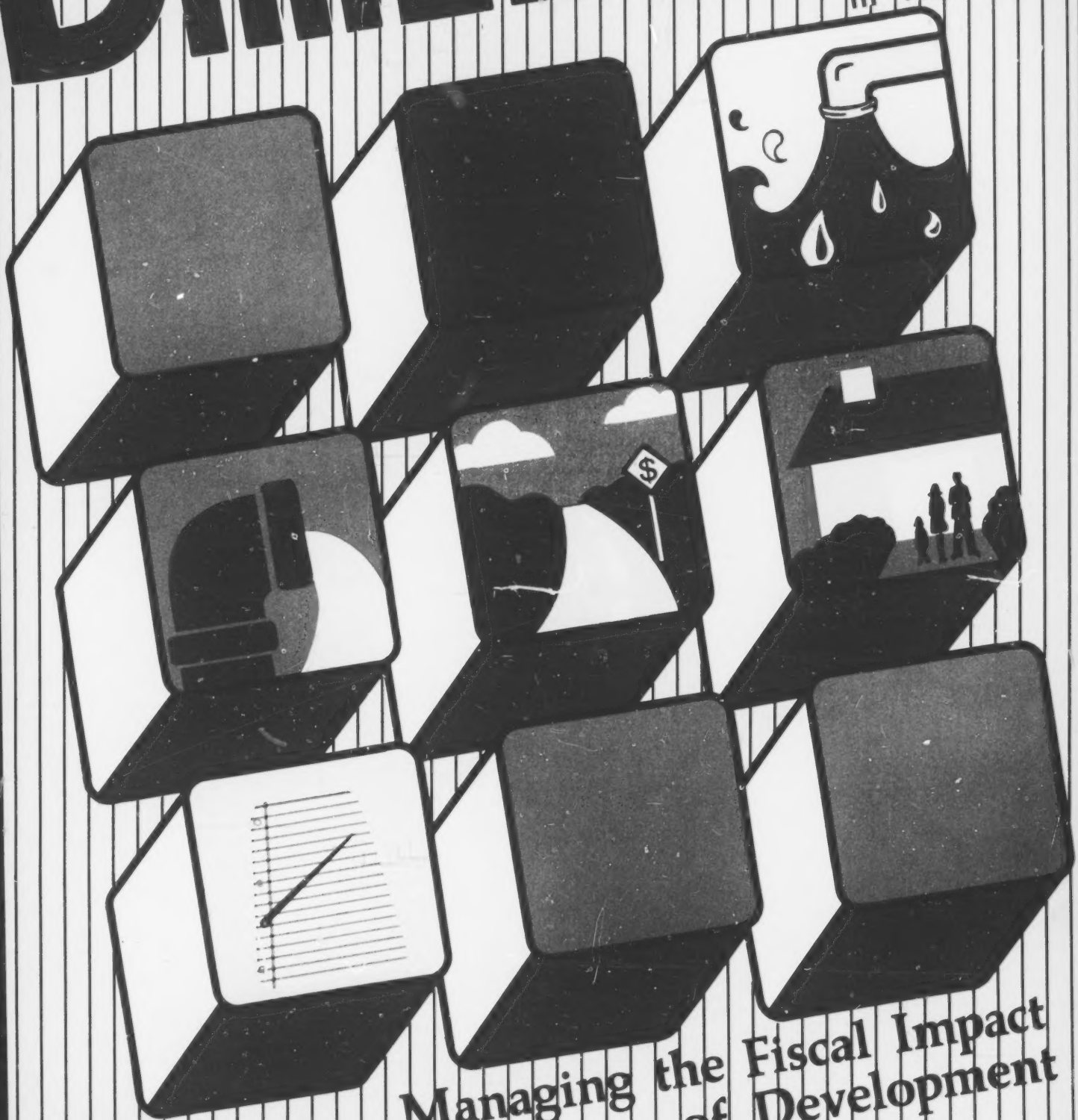

Managing the Fiscal Impact of Development

Vol. 19, No. 3 1983

BUSINESS & ECONOMIC DIMENSIONS

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MANAGING FLORIDA'S GROWTH
·AN INTRODUCTION·

Hank Fishkind

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Managing Florida's growth is the most pressing problem facing our state in the 1980s. Despite some of the most progressive legislation in the country, there is widespread concern that continued rapid growth will destroy the quality of life in Florida. Ironically, environmental qualities that attract people to Florida in the first place are being consumed by those same people, who represent all of us — collectively and individually. There are not any Martians driving on Florida's roads; there are not any Venutians drinking our water, and no Klingons have been seen crowding our beaches or littering our piney woods. In the immortal words of Pogo, we have met the enemy and it is us.

Perhaps some readers may think that the claim that we are all responsible for the current unsatisfactory situation is too inclusive. How often have we heard, thought or said "this was a fine place until all the new people moved in and ruined it!" or "all these tourists are making the roads and beaches overcrowded; if it were not for them, things would be better." Such statements presume that others have no right to be in Florida; that somehow we own the "place" or the roads or the beaches, and that others are intruding on our space. Yet, this presumption is not so. Florida's borders are open and the state must be managed with consideration for existing residents, new residents and tourists. There is no other way under our current system of law and with our private market economy.

There is little doubt that the transition from a largely rural state to a fast-growing urban state in less than thirty years is disruptive. Additionally, the rural/urban transition involves additional costs as density increases. An urban society requires more roads, sewers and policemen. Although some lament the urbanization of their community, the transition is inevitable. We cannot stop Florida's growth, so we must accommodate, manage and guide it to obtain the highest-possible quality of life.

Florida has enacted landmark legislation to manage its growth. Some of the most important laws include the following: that every community be required to prepare a comprehensive plan; that large-scale developments must pass through a stringent Development of Regional Impact analysis at the local and state levels; that critical environmental lands are now purchased by the state; and that a comprehensive water protection package was passed this year.

Yet with all this legislation, it is still not enough. First, we must implement fully and fairly the laws already enacted to manage growth. Second, new methods must be developed to analyze the impacts of growth so we can better anticipate problems before they get out of hand. Third, we must identify and implement improved growth-management methods. Finally, we must recognize that ultimately we will get the kind of state we are willing to pay for. There are no free lunches.

Florida has not kept pace with the infrastructure requirements of a burgeoning population, and as a result, environmental and lifestyle amenities have suffered. For the foreseeable future, Florida's population will continue to grow rapidly. Thus, we can choose to invest in costly infrastructure to accommodate our existing and future population, or pay the price in terms of a reduced level of environmental quality.

The economic tradeoffs are rather straightforward, if a bit harsh, and I have but few of the answers. This introductory article describes the nature of our growth management problems. In my judgment, the key to more-effective growth management lies in providing sufficient capital infrastructure (roads, water and sewer systems, schools, etc.) to protect the quality of life, and to price these infrastructure facilities properly.

In an article to follow in this issue that describes Florida's infrastructure needs, Neil Sipe has conducted a careful analysis of Florida's backlog of current, unmet infrastructure needs and the requirements for future capital infrastructure as growth occurs. In a third article, Sipe describes a set of new analytical tools developed by the Bureau of Economic and Business Research to aid local governments in assessing the implications of growth and development on their budgets and on their communities. The final article discusses the economics of impact fees, a widely touted method for financing capital infrastructure.

Florida's bright economic future

The near- and long-term economic prospects for Florida are very bright. Our state is blessed with being in the right place at the right time, with the right mix of resources. This situation is fortunate because our economic strength will provide us with the resources to deal with our growth-related problems.

In the near term through 1985, the Florida economy will be very strong. The current economic recovery is already reaching boom proportions in some areas, notably Orlando, and in some sectors, particularly in tourism and manufacturing. Not since 1972 have national economic conditions been as conducive for Florida's growth. In addition, Florida's economy is poised to take advantage of the nation's current economic recovery.

At the national level, a moderate-to-strong cyclical upswing is underway. A sharp reduction in the rate of inflation and a drop in interest rates, coupled with three years of income tax cuts, are the forces propelling the national economy forward. The four-quarter growth rate of real GNP by 1983:4 is 6.0 percent. Real growth will top 4.0 percent during 1984 and slow to 3.0 percent in 1985. In contrast to the inflationary cycles of the 1970s, consumer prices should advance just 3.0 percent this year, followed by increases of 4.5 percent in 1984 and 5.0 percent in 1985.

The national economic recovery is being constrained from even greater buoyancy by two major forces. First, exports are weak and likely to stay that way. The rapid rise in the international value of the dollar and the relative weakness in the economies of our major trading partners will restrict U.S. exports. Second, real interest rates are at historically high levels and are likely to remain at their current lofty levels. Outsized federal budget deficits will place continuing pressure on the financial markets in an environment where the Federal Reserve will carefully control the growth in the money supply.

The Florida economy is in an excellent position to prosper as the national economy expands. First, Florida came through the 1981-1982 recession in fine shape, considering that it was the worst recession since World War II. Indeed, it was a bit surprising that the Florida economy proved to be so resilient in 1981-1982 after being so vulnerable in 1974-1975. During the 1981-1982 recession, the state's housing markets did not become as unbalanced, and the state's mix of industries is more diversified than in 1974-1975. Since the contraction was shallower during the last recession, Florida begins the 1983 recovery from a relatively high plane.

Second, the leading components of the national recovery are particularly beneficial for Florida. For example, the defense buildup is providing strong stimulus to Florida since the state is home to many major defense contractors and military bases. In addition, Florida is also benefiting from the strength in the electronics area because the state has a strong electronics manufacturing sector.

The Florida economy is in the midst of a powerful cyclical upswing, the strongest since 1972. Tourism, construction and manufactur-

Table 1. — Florida population projections

	1970	1975	1980	1985	1990	1995	2000
Number (000s)	6,791.4	8,618.5	9,746.3	11,155.7	1,478.7	13,683.8	14,820.7
Change	995.0	1,827.1	1,127.8	1,409.4	1,323.0	1,205.1	1,136.9
Percent change (annual rate)	13.2	4.9	2.5	2.7	2.3	1.9	1.6

Source: Bureau of Economic and Business Research.

ing are leading the rebound so far this year, and population growth is accelerating to reinforce the recovery. By year-end 1983, Florida's economic rebound will propel most indicators above their previous peaks reached back in 1979, with 1984 and 1985 stacking up as boom years for the Florida economy. Population growth should top 325,000 per year, and housing starts will exceed 200,000 per year.

The outlook through 2000 is similarly optimistic. There are strong demographic and economic forces at work that will stimulate continued growth in Florida. First, national demographic trends will be particularly favorable over the next two decades. Florida draws most of its inmigrants from two age groups: 65 and older, and 25 to 45. In the upcoming two decades, these two groups will be the fastest-growing age cohorts in the nation. The 65-and-older age cohort is benefiting from advances in medical technology, while the 25-45 age cohort derives its rapid growth from the aging of the "baby boom" generation that is now reaching maturity. Thus, if Florida merely garners the same proportion of these two age groups during the next twenty years that it did during the 1960s and 1970s, the state's population growth will remain strong.

Second, there is a broad restructuring currently underway in the U S. economy, with automation and computerization changing the way that goods are produced in this country. As a result, fewer blue-collar workers are needed in the steel, auto, rubber and other heavy industries while more managers, programmers, computer operators and assemblers are in demand. As John Nesbitt explains in his book *Megatrends*, we have entered the information age where the processing and control of information constitutes an ever-expanding component of most jobs. The implications of this restructuring are every bit as important as was the restructuring of the agricultural economy that occurred with increased mechanization between 1920 and 1940. As was true before, the restructuring is being accompanied now by massive flows of people from areas of excess labor to areas where labor is in greater demand. In the early part of this century, the movement was from the farmlands of the Great Plains and the rural South to the industrial areas of the Northeast and the Midwest. Now the movement is from the same industrial areas to the growing economies of the South and West. Since Florida is part of this growing region with its defense and electronics industries and the strong service demands of its retirees, the state will continue to attract labor from the Northeast and the Midwest as it has during the past twenty years.

The Bureau of Economic and Business Research projects that by 2000, Florida's population will reach 14.8 million from approximately 10.7 million today. Table 1 contains the Bureau's latest population projections, which indicate that by 2000 there will be more than four million more Floridians, and on an annual average basis, the state's population will grow by more than 250,000 per year.

Florida's capital infrastructure problem

Florida's rapid growth has generated tremendous economic benefits through expanded job opportunities, higher per capita incomes and a robust business environment. However, as economists are quick to point out, there are costs and benefits involved with every phenomenon. The transition from a largely rural state to an urban state over the past twenty years was an expensive process. The costs are both pecuniary and nonpecuniary, but they cannot be avoided; there are no free lunches. The pecuniary costs are those

required for an urban society, including greater expenditures for police, fire and government services and higher spending for urban infrastructure such as roads, sewer and water systems, and parks. The nonpecuniary costs are the increased congestion on our roads, the reduction in open space and wetlands, and other environmental degradation. While continued economic growth will inevitably generate higher costs, we can choose to control these costs through careful management and to mitigate the nonpecuniary costs by investing in urban infrastructure. As will be shown in this article, growth management and infrastructure investment work together to promote the highest possible quality of life.

Historically, Florida has underinvested in capital infrastructure. As a result, today the state faces a massive backlog of unmet capital facility requirements. Indeed, over the past ten years the problem has worsened because spending on infrastructure in Florida has actually declined in real terms, even in the face of rapid population growth. In view of Florida's past reluctance to invest in public infrastructure, the prospects for continued rapid population growth over the next twenty years are a cause for concern.

The scope of our infrastructure problem is immense. In another *Dimensions* article, "Florida's Infrastructure: Past Needs and Future Requirements," Neil Sipe indicates that we face a $28-to-$33-billion problem. Currently, 23 percent of Florida's roads are structurally deficient and 19 percent of our roads are operationally deficient, for a grand total of more than half of our road network currently classified as deficient by the Florida Department of Transportation. In addition, more than 21 percent of Florida's bridges need repairs. While the new laws protecting Florida's water supplies were welcome, the debate over these measures indicated the widespread need for costly new water and wastewater systems throughout the state. Furthermore, Florida's school enrollments are expanding as our population continues to grow, yet many school systems in the state are already on double sessions and many facilities are inadequate to meet our current needs.

Thus, the state has a large backlog of unmet infrastructure needs generated by previous growth and the more-urban nature of Florida in the 1980s. Furthermore, the future will bring continued strong economic and population growth. So, the critical issue is how the required infrastructure can be financed. This issue is explored next.

The local government fiscal crisis

Despite rapid economic growth and an expanding tax base, Florida's local governments (county and city) face serious fiscal constraints in the 1980s, and these problems stem from five causes. First, the increase in the property tax exemption to $25,000 and its subsequent extension to all citizens has caused severe erosion in the property tax base, the main source of revenue for local government. Second, the TRIM program has capped the potential growth in property tax revenues. Third, grants from both the federal and state governments are being sharply curtailed. Fourth, there is great pressure on local governments to keep taxes low in the wake of California's proposition 13. Even here in Florida, a low-tax state by anyone's estimation, there is proposition #1 on the November, 1984 ballot, which would severely limit all revenues that local governments could receive without a voter referendum. Finally, local governments face strong demand for new urban infrastructure and urban services to meet the needs of existing residents and new growth.

Currently, the operating budgets of most local governments in Florida appear to be in good shape. The problem is financing infrastructure, and there are two dimensions to this question. First, developers generally provide the necessary infrastructure within the subdivisions that they build. Thus, the problem is financing the public infrastructure outside of subdivisions. Second, many homes may not be built in subdivisions and do not have adequate infrastructure provided, or growth has caused a transition to occur from a rural area with low infrastructure needs to an urban area with higher infrastructure needs.

Thus, while the demands for public infrastructure are increasing, local governments find themselves with less fiscal capacity to provide the necessary infrastructure. Clearly, we need tools to lower the potential future costs and new methods to raise the necessary funds to finance our infrastructure needs if we wish to maintain the existing quality of life in Florida. However, before turning to an outline of the potential solutions to this dilemma, it is

important to analyze whether or not growth pays its own way.

Does growth pay its own way?

This question is the heart of most controversies surrounding growth control in Florida. To answer it properly requires a sophisticated fiscal impact analysis to assess the costs and revenues that accrue to local government as the result of land development activities. Over the last three years, the Bureau of Economic and Business Research has developed a set of computer models to help local governments address this crucial issue. One of these is described by Neil Sipe in "Fiscal Impact Analysis: A Tool for Managing Growth," which appears in this issue of *Dimensions*.

Our research in fiscal impact analysis indicates that there is no standard answer to whether or not growth pays its own way. The answer depends on a host of considerations including: (1) the kind of growth; (2) its value and tax base; (3) location; (4) timing; (5) the characteristics of those who will live in the development; (6) economic multiplier effects of the project; (7) the fiscal structure of the community where the project is located; and (8) other factors as well.

Table 2 illustrates these points with an analysis of "Generic Estates," a hypothetical subdivision in Sarasota County. The first panel of Table 2 describes the subdivision's characteristics, its buildout schedule, price range and characteristics of its residents. The second panel of the table describes the various scenarios for which fiscal impacts on Sarasota County and its school board are calculated in panel 3.

As the bottom panel of Table 2 indicates, Generic Estates will provide positive fiscal impacts on Sarasota County and its school board of $73,900 and $174,400, respectively. In scenario 1, the average value of the homes in the subdivision is increased from $85,000 in the base case to $95,000. The effects are to augment the expected fiscal surplus provided by Generic Estates given that everything else was held constant. In scenario 2, the average value of the homes is reduced to $65,000, and the subdivision creates a fiscal deficit for the county. It will cost $18,500 more to service the needs of Generic Estates under this set of assumptions than the subdivision will generate in revenues. Scenario 3 analyzes the effects of an increase in the number of school children per household from 0.4 in the base case to 0.6, coupled with an average home value of $65,000. Notice that in scenarios 2 and 3 there is no change in the impact on the county since the total number of residents is the same as the average home value for each of these scenarios. However, the impact on the school district is quite different. The additional school children in scenario 3 result in a negative fiscal impact on the school district of $154,200. Finally, scenario 4 modifies the conditions of scenario 3 by allowing 40 percent of the homes in Generic Estates to be seasonal or rental units. In this case, the negative fiscal impacts are lower since fewer of the homes would qualify for the $25,000 homeowners property-tax exemption.

As these various scenarios illustrate, there is no standard answer to whether or not growth pays its own way. The ultimate fiscal consequences of a particular subdivision depend on a host of factors. Finally, it must be emphasized that all growth in all places at all times need not be fiscally neutral. There is the need to provide low-cost housing in our communities.

Toward a solution

First, it is important to recognize that Florida does indeed face a problem in managing its growth. The state will experience continued rapid population growth for the foreseeable future. In addition, there is a large backlog of unmet capital needs as a consequence of previous rapid population growth that must be satisfied if we are to preserve our current quality of life. Finally, local governments currently lack the tools needed to meet the challenge they face in the 1980s.

Second, local governments have not done an outstanding job to date in implementing the growth management tools that are currently available to them. In particular, many cities and counties are not fully implementing their comprehensive plans, and many of these plans do not even contain capital improvement elements because such an element was not explicitly required by law. Finally, comprehensive planning in many communities has become spot planning; the plans are simply not being enforced.

Table 2. — Generic Estates

1.0 Characteristics

Location: Sarasota County

Construction schedule:	1983	10 homes
	1984	30 homes
	1985	50 homes
	1986	50 homes
	1987	50 homes
Sales price:	$85,000	
Household size:	2.5	
School-age children:	0.4 per household	
Rental/seasonal units:	25 percent	

2.0 Scenarios

Base Case--shown above
#1-----$95,000 home value
#2-----$65,000 home value
#3-----0.6 school-age children per house, $65,000 home value
$4-----40 percent rental/seasonal units, 0.6 school-age children per household, $65,000 house value

3.0 Net fiscal impact

	Fiscal balance (in thousands of dollars)	
Scenario	County	School Board
Base Case	73.9	174.4
#1	119.9	256.3
#2	-18.5	10.7
#3	-18.5	-154.2
#4	-2.0	-125.4

Third, every community needs a capital improvement plan, which should be developed in a manner consistent with the community's land-use plan. In this way, capital infrastructure facilities will be available when and where they are needed. Additionally, the capital facilities plans must be financially feasible and contain a financing plan.

Finally, local governments must be provided with expanded revenue-raising capacities to finance capital infrastructure. Recent legislative action allowing counties to raise their gas taxes to finance and maintain their road systems is the type of action that is needed. However, this revenue source will fund only a portion of the needed infrastructure, and additional funds will be needed for water and wastewater systems, parks and many other infrastructure needs. Finally, we must price the use of our capital facilities so that users pay their fair share according to their use. User charges, general taxes and other fees all have their places, but we must strive to rationalize their use in Florida.

FLORIDA'S INFRASTRUCTURE
PAST NEEDS AND FUTURE REQUIREMENTS

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This article provides an analysis of the existing condition of the state's infrastructure (transportation, water and wastewater), identifies major capital needs for 1985, 1990 and 2000, and examines the ability of the state and local governments to pay for new infrastructure and maintain existing capital facilities. This article was abstracted from a larger study, "Florida's Infrastructure Needs and Resources: A Preliminary Report," by Neil G. Sipe and Earl M. Starnes, which was sponsored by the U.S. Joint Economic Committee, and is one of twenty-one similar studies being undertaken in other states.

This effort is a first-cut attempt and should not be construed as being all-inclusive or complete, because we did not have the benefit of a great deal of time or money. Furthermore, previous research on infrastructure needs in Florida was practically non-existent. We hope this effort will prompt continuing and in-depth research in this area.

Rationale for the study

The need to evaluate basic infrastructure such as roads, ports, railroads, and waste and water treatment facilities has become increasingly important in recent years. The Reagan administration has enacted tax and spending cuts to encourage private business investment. However, there have been some unanticipated problems with this plan. Falling revenues, cuts in federal aid and difficulties in borrowing are making it extremely difficult for state and local governments to provide sound and basic infrastructure. Many economists and people in business believe that the condition of the nation's infrastructure is so poor, and that the current fiscal conditions of many local governments are so shaky, that a major crisis is imminent (*Business Week*, 26 October 1981).

The problems currently confronting state and local governments are a result of several

factors. The first of these factors is a massive cut in federal aid. Local governments have become increasingly dependent on federal aid over the past four decades. Between 1948 and 1975, federal grants to state and local governments increased by 676 percent or $37 billion. Federal aid to state and local governments comprised only 11.3 percent of total revenues in 1948, but by 1975, this percentage had increased to 23 percent. Between 1975 and 1980, this percentage remained constant although federal aid increased in real terms. Since the end of 1980, however, federal aid in real terms has declined by $5.4 billion. In all probability, this trend will continue over the next several years and result in severe budget cuts at the state and local levels.

A second set of contributing factors to the current predicament is the tax/expenditure limitation movement. Data Resources, Inc., has identified fourteen states that have some form of tax, revenue or expenditure limitation. While the rationale for these limitations varies among the states, the end result is the same — a slowdown in the growth of state and local government revenues, expenditures and employment.

To understand this phenomenal growth in state and local government, the employment and construction trends of the past several decades must be examined. Between 1948 and 1975, state and local government employment rose by 215 percent, compared to a 49-percent increase in federal employment and a 71-percent increase in total employment. As for construction activities, state and local government expenditures for capital projects increased by 216 percent, compared to an 80-percent increase in private construction.

A third factor causing problems for local governments is fluctuating interest rates. Between 1978 and 1981, the interest rate for a AAA-rated municipal bond more than doubled from 5.5 percent to 11.55 percent. Presently, the rate has fallen to 9.7 percent; however, interest rates are once again on the rise.

The Florida context

Discussions of state and local government infrastructure problems are generally focused on the declining areas of the Northeast and Midwest; however, rapidly growing areas of the Sunbelt, including Florida, are faced with problems as well. Florida and its local governments are faced with two difficulties: 1) they have not kept pace with the maintenance of public facilities, particularly highways; and 2) due to rapid population increases over the past two decades, there is a large backlog of needed, new construction.

To put Florida's rapid population growth in perspective, the following points should be noted:

- *Between 1970 and 1980, the state's population increased by more than 43 percent.
- *Population is growing at an annual rate of 3.0 percent, with most growth attributable to inmigration from other states.
- *By 1990, Florida will have more than twelve million residents, ranking it fourth among the states.
- *This population increase has been and will continue to be concentrated along the coastal sections and in central Florida.
- *It is projected that during the 1980s, Florida will grow at a rate twice that of other Sunbelt states, and more than three times the rate of the United States.

Given these population trends, the prospect for a resolution of the infrastructure problem in the near future is dim. In fact, there is a good possibility that the problems will worsen. Table 1 indicates the dependency of the state and local governments on federal revenues. In 1980, federal revenues comprised 23.8 percent of total state revenues and 10.2 percent of total local revenues. Both units of government have become increasingly dependent on these funds. Federal aid to the state has grown at an annual rate of 13.3 percent between 1960-1980, while federal aid to Florida's local governments has grown almost twice as fast at an annual rate of 23.2 percent.

One of the few positive aspects of the Florida situation is that the current fiscal capacity is quite good. Consider the following:

- *Florida ranked forty-third among all states in fiscal year 1980-81 in the relationship of the state's taxes to personal income.

Table 1. — Federal aid to Florida

Year	State government Million $	State government Percentage of total revenue	Local government Million $	Local government Percentage of total revenue
1960	159	21.4	16	1.7
1965	274	22.7	49	3.3
1970	493	21.4	84	3.1
1975	1030	23.4	461	8.2
1978	1414	22.5	967	12.2
1980	1917	23.8	1040	10.2
Annual growth rate 1960-1978		13.3%		23.2%

Source: U.S. Bureau of the Census.

*Florida ranked thirty-fifth in terms of per capita tax revenues.

*Florida ranked fiftieth among the states in the increase of the state-local tax burdens between 1953 and 1975.

The latest comprehensive work done on the subject was in 1978 by the Florida Advisory Council on Intergovernmental Relations. They made the following conclusion:

*In the aggregate, local governments have substantial unused property tax capacity, but it is not evenly distributed among all local governments; with several exceptions, most of Florida's largest municipalities have a substantial degree of unused fiscal capacity.

Thus it appears that most local governments in Florida, unlike those in other states, have the fiscal capacity to construct and maintain some of the backlog of capital facilities. However, there are some caveats. The first is the voters' reluctance to approve any tax increases. In fact, there is a proposed constitutional amendment similar to California's "proposition 13" that is being placed on the Florida ballot in November, 1984. This amendment proposes a cap on the annual increases of local and state government revenues to two-thirds of the consumer price index, using fiscal year 1980-81 as the base year. The only allowance for population growth in this amendment is for property tax revenues, which in Florida make up only about 40 percent of local government revenue.

The second caveat is the relationship of the capacity to the need. One reason for the great backlog of capital needs is that many local governments in the state felt that if they abstained from providing capital facilities, growth would be diverted elsewhere. As most local governments discovered, this policy was unrealistic, and has failed. It is hoped that the research contained in this report will be helpful in assessing the gap between fiscal capacity/resources and infrastructure needs.

Capital spending trends

An examination of past capital-spending trends is important when trying to estimate needs and resources for future capital spending. Tables 2 and 3 provide summaries of combined state and local government capital spending from 1975 through 1981. Table 2 indicates the expenditures in current-year dollars, while Table 3 provides the values in per capita 1972 dollars.

Table 2 illustrates that in 1981, combined capital spending by state and local governments amounted to nearly $3.128 billion, which compares with $1.904 billion in 1975. Upon examining these values in real terms, it can be seen that total capital spending has declined from a high of $176.79 per capita in 1975 to $158.82 in 1981. Capital spending for highways, schools and other (a miscellaneous category that includes universities, public safety, utilities, drainage and public building) has also declined when compared with 1975. The highway category led the decline, falling from $54.93 per capita in 1975 to $41.68 in 1981. Only two categories, water and wastewater, have increased since 1975. Water spending has increased by almost three times from $5.71 in 1975 to $15.81 in 1981, while wastewater spending increased slightly from $12.49 in 1975 to $13.05 in 1981.

Two categories, highways and other, accounted for more than two-thirds of the capital expenditures in 1981. Water and wastewater, typically considered large-expenditure items, accounted for only 18.2 percent of the total.

When comparing the capital expenditure trends with population, population growth was found to explain approximately 40 per-

Table 2. — State and local government capital expenditures 1975-1981 (in millions of dollars)

	1975	1976	1977	1978	1979	1980	1981
Highways	591.7	500.9	455.5	518.5	648.7	832.0	820.9
Schools	286.5	249.7	280.0	271.4	294.7	325.9	402.5
Water	61.5	116.8	127.7	121.4	109.2	235.9	311.4
Wastewater	134.5	272.9	325.7	220.2	261.2	240.6	257.0
Other	830.0	739.5	829.5	763.1	892.6	1014.0	1336.0
Total	1,904.2	1,879.8	2,018.4	1,894.6	2,206.4	2,648.4	3,127.8
Population (in millions)	8.62	8.74	8.92	9.16	9.45	9.75	10.11

Source: Governmental Finances, 1974/75-1980/81, U.S. Dept. of Commerce.

Table 3. — Per capita state and local government capital expenditures 1975-1981 (1972 $)

	1975	1976	1977	1978	1979	1980	1981
Highways	54.93	42.35	35.14	36.63	41.61	47.62	41.68
Schools*	26.60	21.11	21.60	19.17	18.90	18.65	20.44
Water	5.71	9.88	9.85	8.58	7.00	13.50	15.81
Wastewater	12.49	23.07	25.13	15.56	16.75	13.77	13.05
Other**	77.06	62.54	64.01	53.92	57.27	58.03	67.84
Total	176.79	158.95	155.73	133.86	141.53	151.57	158.72

*includes primary and secondary schools only
**includes universities, public buildings, other utilities, drainage, public safety, etc.
Source: Governmental Finances, 1974/75-1980/81, U.S. Dept. of Commerce.

cent of the variation in capital spending. Given the data from 1975 to 1981 indicated in Table 2, it was determined that a 1-percent increase in population resulted in a .843-percent increase in combined state/local capital expenditures.

Assumptions and methodology

This section outlines the guiding principles and basic assumptions used in undertaking this analysis. Before discussing the individual assumptions used in this analysis, the reader should be aware that this study involved secondary data collection. Time and funds were not available for a county-by-county and a city-by-city examination of infrastructure needs. Even if the time and money were available, many local governments haven't given much thought to future needs because their rapid growth does not give them time to deal with the future. The goal of this study was to collect the information that was readily available, and when necessary, make some rough-cut projections of needs.

Definition of infrastructure

Broadly defined, infrastructure includes such items as transportation, water and

wastewater systems, emergency services, recreational facilities, government buildings, schools, solid waste systems and drainage. Past research in Florida has indicated that transportation, water and wastewater systems, and schools dominate the shopping list of capital needs. For this analysis, schools were eliminated from the list to maintain comparability with the other state infrastructure studies. Thus, the discussion of infrastructure will be confined to roads, bridges, air and water ports, railroads, transit systems, water treatment and distribution systems, and wastewater collection and treatment systems.

Definition of "future needs"

Arriving at a clear definition for future needs was quite difficult, particularly in a growth state that has past needs as well as future needs. There is no doubt that if the state's population were frozen, many local governments would have a difficult time catching up with past needs. If fact, many of the local governments' capital improvement plans that we examined were geared solely for past needs. To deal with these problems while still maintaining comparability with other state infrastructure reports, the needs were divided into two categories: new or future, and backlog.

Population projections

In making any future estimates of needed capital structure, the assumptions made about future population are crucial. In Florida, the Bureau of Economic and Business Research is charged with the task of making the official state population projections through 2020. Three sets of projections are published, giving three alternate scenarios (high, medium and low) regarding future population growth. For this study, the medium projection was used because it is the most-likely estimate of future population. The projections are produced using a cohort-component technique, and refer to permanent resident population only; tourists and seasonal residents are not included. The medium projections used for this study are 11,084,200 for 1985, 12,304,200 for 1990, and 14,592,600 for 2000.

Capital versus operations/ maintenance

The distinction between these two items is usually clear-cut. Capital involves a one-time expenditure of funds to construct, remodel or reconstruct some new facility, whether it is a road, building, water treatment plant or fire station. Operations and maintenance, on the other hand, refer to day-to-day upkeep of capital facilities that involves repairing potholes in highways, painting buildings or replacing broken water mains.

From the examples given above, it is clear that there is a great deal of interdependence between capital and operations/maintenance. If potholes in the roads are not repaired, the road eventually will need to be reconstructed. The same holds true for bridges; without regular maintenance, they will need to be replaced.

For the purposes of this study, we tried to maintain the distinction between these two categories, although at times it was difficult. The greatest problem arose at the county/city transportation level because local governments in the state do not keep accurate records on capital expenditures. Thus in many cases, we were forced to use a category that contained both capital and operations/maintenance expenditures for roads.

Private versus public provision of infrastructure

There is no definitive policy in Florida on who provides infrastructure. For this analysis, some assumptions were made. With respect to transportation, all subdivision and collector streets would be provided privately, while all arterials would be the domain of state and local government. As for water and sewer services, the private sector would provide the neighborhood collection and distribution systems; the mains and larger collection lines, as well as the treatment facilities, would be provided by the public sector.

Estimates of costs

The base year for the cost and revenue estimates contained in this report is 1982.

Table 4. — Summary table: overall needs and resources (in millions of 1982 $)

	Backlog	1982-1985	1986-1990	1991-2000	Cumulative 1982-2000[1]
Transportation					
Needs	3,307.2[2]	5,325.1	6,645.6	13,221.5	25,192.2
Resources	NA	3,375.7	4,829.5	9,044.5	17,249.7
Shortfall	3,307.2	1,949.4	1,816.1	4,177.0	7,942.5
Wastewater					
Needs[3]	2,100.0	313.7	396.1	878.0	1,587.8
Resources[4]	NA	172.5-313.7	217.9-396.1	482.9-878.0	873.3-1,587.8
Shortfall	2,100.0	0-41.2	0-178.2	0-395.1	0-614.5
Water					
Needs[5]	NA	225.5	294.6	733.5	1,253.6
Resources[6]	NA	0-225.5	0-294.6	0-733.5	0-1,253.6
Shortfall	NA	0-225.5	0-294.6	0-733.5	0-1,253.6
Total					
Needs	5,407.2	5864.3	7,336.3	14,833.0	28,033.6
Resources	NA	3,548.2-3,914.9	5,047.4-5,520.2	9,527.4-10,656.0	18,123.0-20,091.1
Shortfall	5,407.2	1,949.4-2,216.1	1,816.1-2,288.9	4,177.0-5,305.6	7,942.5-9,810.6

NA Not available.
[1]Does not include backlog.
[2]Backlog needs are only for state/federal roads/bridges.
[3]Wastewater needs assume that 84 percent of the new population will be connected to a wastewater facility and a sewage generation rate of 100 gallons per person per day.
[4]Wastewater revenues assume a one-time household connection charge of $125 for 1982-1985, $435 for 1986-1990, and $514 for 1991-2000.
[5]Water needs assume 88 percent of the population will be connected to a central water system and an average use of 125 gallons per person per day.
[6]Water revenues assume a one-time household connection charge of $654 for 1982-1985, $686 for 1986-1990, and $911 for 1991-2000.
Source: See Tables 3.8, 3.10, 3.11, 4.2, 5.2 of "Florida's Infrastructure Needs and Resources: A Preliminary Analysis," Bureau of Economic and Business Research, University of Florida, September, 1983.

Unless otherwise noted, all costs and revenues are shown in constant 1982 dollars.

The cost estimates for the various infrastructure categories include engineering and contingency costs. Not included in the estimates are the costs of debt. Generally if bonds are to be sold, an additional 30 percent should be added to the cost estimates.

Results

The results of this preliminary analysis are shown in Table 4. The cumulative needs for the eighteen-year period from 1982 to 2000 total $28.033 billion; however, if identified backlog needs are included, the total increases to $33.440 billion. The resources to provide these needs range from $18.123 billion to $20.091 billion, depending on the amount of local effort. The level of unmet needs over the eighteen-year period ranges from $7.942 billion to $9.810 billion. In other words, 65 to 72 percent of the needs can be provided given available resources, and 28 to 35 percent of the needs will be unmet. Furthermore, the capital needs examined here represent only three of a host of capital needs. Not included in this analysis are schools, prisons, public-safety facilities, libraries, public buildings, drainage and solid-waste disposal facilities. If these items had been included, the level of estimated needs would have been at least 50 percent higher, based on past capital-spending trends.

The two most-costly capital items not addressed here were schools and prisons. With Florida's growth rate, keeping pace with

school construction is difficult. Research conducted last year indicated that the statewide school needs for the 1980-1985 periou amounted to $3.936 billion, with 88 percent of this need concentrated in urban areas. On average, capital school requirements for each new student total $2,500.

The other costly capital item is prisons. Many times, state and local governments like to forget about providing prison facilities; however, since much of the prison construction is court-ordered, it takes precedence over other capital needs.

Based upon the results thus far, it appears that the state is in some difficulty. However, the following factors need to be considered. First, local governments have a substantial degree of unused fiscal capacity. Second, the availability of accurate data on revenue sources is spotty at best. This study was not able to identify firm sources of funding for many of the capital-need categories, particularly water and wastewater. It is known that water and wastewater projects are becoming increasingly dependent on impact fees and connection charges for capital-construction funding. However, a good estimate of the amount of these funds will not be known unless and until an in-depth local government analysis is undertaken. Third, the needs presented here provide estimates for one level of service. It is possible that the state will not be able to maintain the levels of service that everyone would desire. Fourth, the current administration in Tallahassee is making efforts to provide funds for these infrastructure needs. During this past legislative session alone, an additional penny was added to the state sales tax, changes were made to the state gas tax, counties were given the authority to add up to four additional cents on the state gas tax, and an additional sum of $100 million was provided to help local governments meet their wastewater facility needs. These efforts will help to overcome the impacts of federal cutbacks for transit systems and wastewater treatment facilities. It is unknown how far these efforts will go to providing both past and future capital needs.

Validity of the results

One question that must be raised in conducting an analysis of this type is: "how valid are the results?" It has been acknowledged that many of the need and revenue estimates are suspect, particularly local government needs/resources that are determined through surveys. One method of checking the results is a comparison with current levels of capital spending by state and local governments. Table 2 indicates that in 1981, total capital spending was $3.127 billion. For the needs addressed by this report (roads, water and wastewater) the level of spending was $1.389 billion. Table 4 indicates an eighteen-year expenditure for highways, water and wastewater of $28.033 billion. In annual terms, this figure results in an annual expenditure of $1.557 billion. The difference between the actual amount spent in 1981 versus the amount forecast in this study is $168.1 million. However, if the backlog needs are included in the eighteen-year estimate, the difference becomes $468.45 million. Thus it appears that the capital needs presented in this report are fairly accurate, given the constraints involved in their determination.

Recommendations

The most important recommendation that can come from such a study is that this effort be continued. For a state with more than $28 billion in infrastructure needs over the next eighteen years, little study has been done. The assessment of capital needs should be an ongoing effort at both the state and local level. While local governments are required to provide a capital-needs program in their comprehensive plans, the efforts to date have been woefully inadequate. Additionally, some type of statewide panel should be established that would look at alternative means for financing capital needs.

Another recommendation based on the findings of this research would be to require that local governments report their capital expenditures on an annual basis. It is almost impossible to determine what local governments have spent for capital improvements without doing an individual case study for each local government. At the present time, the capital and operating expenditures are combined. The rate at which local governments are providing capital facilities is an important variable in determining what they will need to provide in the future.

•FISCAL IMPACT ANALYSIS• A TOOL FOR MANAGING GROWTH

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The current economic environment has enhanced the need for accurate, but low-cost, fiscal impact analyses for all land development decisions. While the need for accurate fiscal impact analysis is most obvious in rapidly growing areas that require extensive investment in new infrastructure,[1] the need is just as great in slow-growing areas that face expensive infrastructure maintenance programs.[2] Governments at all levels, particularly local governments, are facing severe resource restrictions. The Reagan administration has reduced federal grants and slowed the growth in federal spending. State and local governments, faced with voter resistance, are reluctant to raise taxes or float bonds. Thus, every proposed change in land use must now receive careful scrutiny as to its financial impact on the community.

This article describes a powerful but practical model for conducting fiscal impact analysis at the local level. The model has a number of noteworthy features that are usually absent from other approaches. Of particular interest is our model's capacity to examine: (1) secondary or multiplier effects of a project; (2) present values; (3) sensitivity analysis for alternative assumptions; (4) any mix of public and private service provision; and (5) alternative state and local fiscal structures. Other unique features include the interactive nature of the model, its substantial data base and its capacity to allow the user to alter any assumption used in the model. Furthermore, to encourage its use by local governments, the model runs on inexpensive microcomputers such as the Apple II or IBM personal computer. The model is currently in day-to-day use in a number of Florida jurisdictions including Florida's Bureau of Land and Water Management, the state's chief planning agency.

This article provides a critical review of the state of the art in fiscal impact analysis, describes the model in greater detail and presents the results from a series of fiscal impact analyses using the model.

What is fiscal impact analysis?

Fiscal impact analysis assesses the effects of land development on local government costs and revenues, and focuses on whether new developments, alternative land-use plans, annexations or large rezoning decisions will generate enough new taxes to pay for the

added public costs entailed. What will be the effects of new development on the local capital infrastructure program? What will be the costs of hiring extra teachers, police and other public employees? Will local tax rates need to be raised to support the development?

Fiscal impact analysis is a marginal cost-revenue analysis for a land development action, and involves a comparison of two money flows: (1) the cost of services to be provided by the local government to the development; and (2) the taxes and other revenues to be paid by the development.[3]

The most comprehensive discussion of techniques for estimating costs and revenues from land development is presented in *The Fiscal Impact Handbook* by Burchell and Listokin. The handbook describes six methods for analyzing fiscal impact: per capita multiplier, service standard, proportional valuation, case study, comparable city, and employment anticipation. The methods are based upon either average or incremental (marginal) ratios taken from recent municipal cost and revenue data (by type, function, city size and region). These ratios or multipliers are then projected into the future on the assumption "*that the recent cost-revenue characteristics of individual land uses will be maintained in the future.*"[4] (italics added). No regional or city modeling is attempted. Rather, the emphasis is upon direct *ad hoc* ratios based upon historical and current experience in revenues and expenditures projected into the future. The exception is the case study approach, which attempts to project future revenues and costs using interviews of local department heads and administrators.

Three of the techniques — per capita multiplier, service standard and proportion valuation — are average-cost techniques. The other three techniques — case study, comparable city and employee anticipation — are marginal-cost techniques.

Average-cost techniques simply compute the average costs (or revenues) per resident, employee or pupil by dividing total costs by the number of total residents, employees or pupils. The technique then projects the average costs (revenues) into the future. Clearly, the average-cost techniques involve two somewhat questionable assumptions: first, that current (or past) relationships will hold in the future; and second, that there is no excess or deficit service capacity that might cause extra costs of service to be below or above average costs of service.

By contrast, marginal-cost techniques attempt to approximate the extra costs of additional development and directly allow for the presence of surplus or deficit capacity. There is no question that the estimation of the marginal costs is the correct course to follow. Average-cost estimation, of course, does approximate marginal costs if there is no excess or deficit capacity to be considered.

The course we suggest is to try to estimate the full incremental costs of new development. It is fine if these costs coincide with average costs, but the notion is to begin with a conceptually correct estimate. Moreover, the marginal-cost notion frees us immediately from the necessity of using past relationships as indicators of future conditions. The objective should be to always use the best estimate of what future trends will be, and not refine estimates of past and current costs unless they are clearly helpful in estimating future costs.

Of the three so-called "marginal-cost" techniques, only the case study method is truly an attempt to estimate marginal cost because it involves direct estimation of capacity and incremental costs of service for new development, using the municipality involved. Reliance on cost of service for a comparable city will always be subject to some error because of a lack of true comparability. Employee anticipation coefficients based upon extra municipal costs occasioned by new employees to be added are really another version of what is comparable in city experience elsewhere.

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[1]Robert Applebaum et al., *The Effects of Urban Growth: A Population Impact Analysis* and Earl Finkler et al., *Urban Non-growth: City Planning for People*. (New York: Praeger Publishers, 1976).

[2]Neil G. Sipe, "State and local government finance: problems and prospects," *The Florida Outlook*, Vol. 5, No. 4, Fourth Quarter, 1981, pp. 67-76.

[3]Walter Isard and Robert Coughlin, *Municipal Costs and Revenues Resulting From Community Growth* (Wellesley, Massachusetts: Changler Dairs Publishing Company, 1975).

[4]Robert W. Burchell and David Listokin, *The Fiscal Impact Handbook: Estimating Local Costs and Revenues of Local Development* (New Brunswick, New Jersey: The Center for Urban Policy Research, 1978).

Per capita-multiplier method

This technique, which is the most commonly employed to estimate fiscal impacts, has the advantages of simplicity, ease of estimation and low costs. Its disadvantages are the likelihood of being incorrect because of two basic premises: (1) that present conditions affecting average costs and average revenues will likely hold in the future; and (2) that no recognition is given to the need to make either immediate additions to capacity, or to availability of excess capacity already in place.

The per capita-multiplier technique divides total residential expenditures for municipal services by the number of residents, and annual school-district expenditures by number of children attending public schools. Costs of nonresidential uses have to be isolated. Crude estimates of nonresidential costs are made by using the proportion of nonresidential property values to total real property values to assign portions of total cost to nonresidential uses. This kind of allocation assumes that nonresidential service demands are proportional to property values. Clearly, this is a questionable assumption.

Next, population multipliers of anticipated new residents and new school population are applied to the new development. Burchell and Listokin show various demographic multipliers for type of dwelling (single-family homes, townhouses, etc.), number of bedrooms and for various geographical regions in the United States. Total municipal and school costs are obtained by multiplying average costs per capita and per pupil by the expected number of new residents and the new school population. Similarly, revenue increases resulting from the new development are built up from per capita relationships from the existing residents and school population.

No attempt is made to deal with long-run fiscal flows, or to discount flows to compute present values. Changes in costs and revenues from the development over time are assumed away.

Service-standard method

The service-standard technique uses estimates of average manpower per 1,000 population and capital-to-operating-expenditure ratios for eight common municipal functions. Service manpower requirements and expenses per employee are derived by multiplying by the expected population. Burchell and Listokin have tabulated manpower ratios for municipalities and school districts for four regions of the country, with eleven population categories per region. As an example, for a city of 10,000 to 24,999 residents in the southern region, the manpower ratios per 1,000 residents are 2.01 policemen, 1.24 firemen and 0.46 financial-administration staff members. The school district requires 78 employees per 1,000 students.

The service-standard technique is quite similar to the per capita-multiplier strategy. It is an average-cost approach that is simple and inexpensive, and has all of the drawbacks discussed above. Can we accept the notion that average-service patterns and median capital-to-operating-expenditure ratios are good predictors of future costs and revenues?

Comparable-city method

The comparable-city technique assumes that cities of comparable population size and growth rates have similar municipal and school expenditure functions. The analyst predicts the new population size and growth rate occasioned by new development, and then applies ratios of future-to-current expenditures (based upon cities of comparable size and growth rates) to existing per capita costs and multiplies by the expected new population.

This technique is an attempt to deal with economies of scale in terms of supplying five municipal services as related to comparable cities and growth rates. Small, rapidly growing cities may require new service thresholds and thus have relatively high per capita costs. By contrast, a declining city may have excess service capacity and lower service costs.

The validity of this method is based upon the "true" comparability of the benchmark communities. Is the rather simple breakdown of comparability of city size and growth sufficient to pick up incremental cost and revenue patterns in your city? In other words, are the expenditure multipliers derived by Burchell and Listokin likely to hold? The attempt to determine marginal relationships is to be encouraged. The question is whether the

expense of a detailed case study is justified by more accurate predictions.

Proportional-valuation and employment-anticipation methods

Burchell and Listokin describe two techniques for dealing with fiscal impact analysis for nonresidential developments. Both techniques are rather unsophisticated and involve applying national ratios on expenditures to local developments.

The proportional-valuation technique first assigns a share of total municipal costs to all local nonresidential uses. Next, a portion of these nonresidential costs is allocated to the new nonresidential development. The basic assumption throughout is that demands for municipal services are proportional to real property values. It is recognized that such an assignment may overstate or understate actual service costs, so the authors recommend the use of "refinement coefficients" to modify share calculations. The refinement coefficients are not well-explained, but they are supposed to "scale down" (up) projected impacts when the new nonresidential facilities are significantly larger (smaller) than the average nonresidential facility.

The basic assumption that municipal costs increase with assessed valuations is quite unrealistic. By this assumption, one could not distinguish the different service demands of an amusement park versus a power station. Although the cost-revenue analysis could be done quickly and inexpensively, it is not evident how valid the results would be.

The employee-anticipation technique expresses future municipal costs as a result of expected employees. This method relies upon coefficients to express changes in municipal costs for various categories of cities, as defined by city size and direction of growth.

A single multiplier is used for all cities within a particular population group. As an example, for a growing community of 10,000 to 24,999, public safety services for each additional employee are assumed to increase existing per capita costs by .00162 percent. No distinction is made for different kinds of nonresidential developments and their widely different service demands. Estimates of anticipated employment often are obtained by multiplying the square footage of the new facility by the average number of employees per square foot for a comparable facility. No coefficients are provided for cities of more than 150,000.

The fiscal impact model

The fiscal impact model we have developed is a powerful, flexible and easy-to-use tool that can analyze an array of land-development options including: residential projects, commercial developments, industrial plants, institutional uses or any combination of these. The model generates estimates of revenue and service costs based on a set of user-supplied inputs that describe the project, such as number of homes and employees. Both direct and indirect effects are analyzed. The model is quite flexible, and allows the user to easily change all of the assumptions used in generating revenue or expenditure estimates.

The model is a modified per capita-multiplier approach to fiscal impact analysis. It focuses on cost-revenue analysis and does not consider cost-benefit relations. Since the model is a per capita-multiplier model limited to cost-revenue analysis, it is subject to most of the limitations inherent in this approach. However, the model has a number of improvements that help to resolve many of the severe limitations of per capita-multiplier models.

Table 1 outlines the improvements made in our model that resolve some of the problems inherent in most other fiscal impact analyses. Unlike most other models, our effort examines: (1) the financing of capital facilities; (2) secondary/multiplier effects of the project; (3) a lengthy time horizon and present values; (4) sensitivity analysis for alternative assumption; (5) the mix of public and private provision of services; and (6) the state and local fiscal structure. However, the model continues to share some of the limitations of a per capita-multiplier approach, as it does not explore the environmental consequences of a project. Spillovers to other jurisdictions are limited to the county where the development takes place. There is no analysis of fiscal incidence, and only the costs and revenues to local governments are counted. Other regional benefits of employment and income are not explicitly considered. Finally, location-specific factors are limited to the jurisdiction where the project is located.

Table 1. — The fiscal impact model vs. standard analysis

Criteria	Standard fiscal impact analysis	The fiscal impact model
Environmental analysis	No	No
Capital facilities analysis	No	Financing only
Secondary/multiplier effects	No	Yes
Spillovers to other jurisdictions	No	Home counties only
Fiscal incidence analysis	No	No
Time horizon/present value	No	Yes
Sensitivity analysis	No	Yes
Public/private sector mix	No	Yes
State/local fiscal structure	No	Yes

Environmental analysis, subjurisdictional tax incidence and spillovers are not examined, because to do so would require a very large amount of location-specific information. The resulting model, if it could be built at all, would be extremely expensive to operate and maintain. Other forms of analysis are better suited to an examination of these questions.

Instead, we chose to develop a model to examine fiscal impacts. The model was designed to make it easy for local and regional analysts to use, yet powerful enough to conduct sophisticated analyses. The model is implemented on a microcomputer with a cost well within the budgets of most local planning agencies.

Running the model

The model is "user friendly" and very easy to run. Absolutely no computer skills are required; however, the user is expected to be familiar with the project to be analyzed. The model asks a series of questions about the project such as its size, location, construction period, number of employees or households. The questions are posed in English and require either "yes," "no," or numerical responses.

The model contains considerable historical data on the region to be analyzed, particularly government revenue and expenditure data. As these data are needed, the model displays them in a table. The user is asked to choose between utilizing the most recent data for the area or working with user-supplied values. The model displays all of its assumed or historical data for the user to check if such values are acceptable or not. Any of these values can be readily altered by the user.

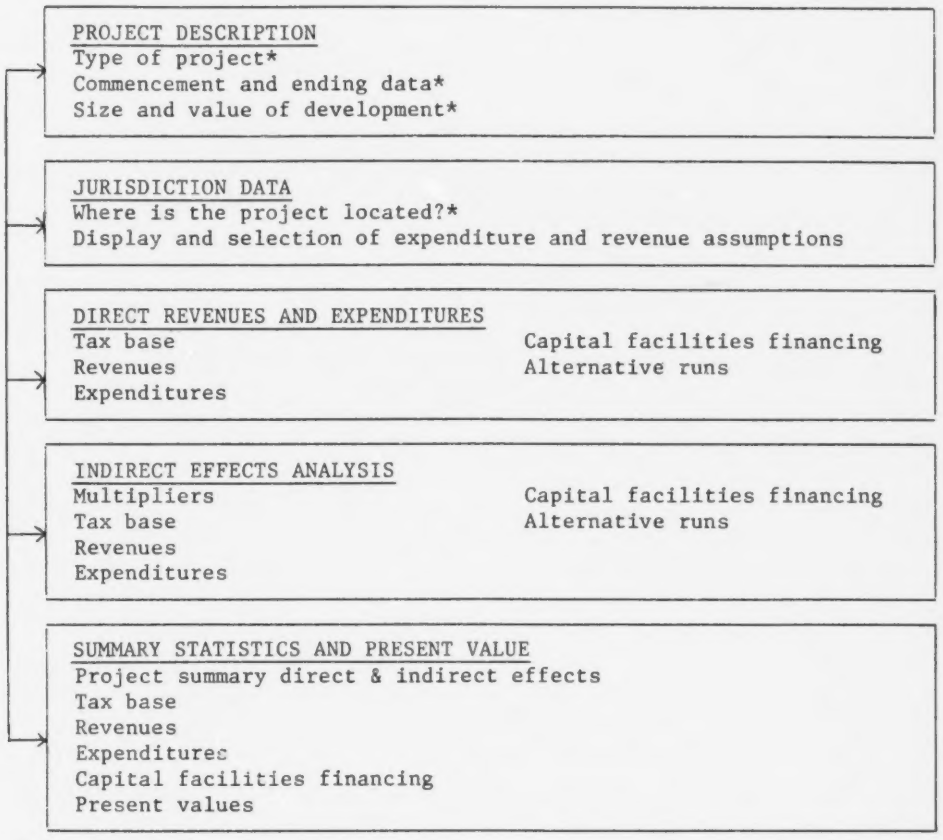
The model consists of a set of interconnected blocks pictured in Figure 1. The "project description" block comes first. Here the user supplies descriptive information about the project including: (1) the type of project, (residential, commercial, etc.); (2) the construction period; (3) size of the project; and (4) its market value. Next is the "jurisdiction block," where the user specifies the location of the project by jurisdiction, such as which county or city the project is located in.

The model then displays the most-recent per capita revenue and expenditure data for the jurisdiction, and asks the user if these data are acceptable. If not, data are specified by the user.

Next, the model calculates the direct fiscal impacts of the project based upon the project description and jurisdictional location supplied above. First, the tax base is calculated, and the direct revenues and direct expenditures are estimated. Each process is done annually during the construction phase of the project and for a period of ten years after the project is completed. Summary statistics are also calculated. Then the capability of the project to finance capital facilities is examined. Finally, the user is encouraged to examine the project under alternative, user-supplied assumptions.

Indirect effects are examined next. The model contains a set of multiplier values for the area under study that can be used, or the analyst can supply other values. Then the tax

Figure 1. — Block diagram: The Fiscal Impact Simulation Model



*User-supplied inputs required.

base, revenues and expenditures are calculated for the indirect effects. Once again, capital facilities financing is evaluated and alternative runs under new assumptions are possible.

The final block in the model is labeled "summary statistics and present value." Here, all the calculations from the previous blocks are summarized, and the total tax base, revenues and expenditures are tabulated for the direct and indirect effects. Finally, present values are calculated.

Thus, the model is easy to use but does require the active participation of the user.

Results

This section presents a set of fiscal impact analyses developed with the model to illustrate its capabilities. The model was applied to Florida's Charlotte Harbor Region, the rapidly growing, three-county area of Sarasota, Charlotte and Lee. This region is one of the country's fastest-growing areas.

Generic Estates — a subdivision scenario

This set of simulations illustrates the fiscal impacts of a typical subdivision development in the region, and highlights the variations in fiscal impacts across counties for the same project. In addition, the simulations show how the model can be used to conduct sensitivity analysis. Table 2 contains the basic set of assumptions used for the following simulations.

Table 2. — Assumptions of Generic Estates residential subdivision

For the direct effects		
Initial year		1982
Build-out year		1986
Average annual inflation rate		0.10
Build-out schedule	Year / Units	
	1982 / 10	
	1983 / 30	
	1984 / 50	
	1985 / 50	
	1986 / 50	
Total units		190
Average initial sales price		$85,000
Average rate of home price inflation		0.12
Average number of people per unit		2.2
Average number of children per unit		0.3
Average number of people age 65 and older		0.1
Developer-provided services		No
Percentage sold to non-Floridians		0.8
Cost-of-sale factor		.10
For the indirect effects		
Jurisdiction	Same as in direct effects	
Average initial home value		$50,000
Average number of people per unit		3.0
Average number of children per unit		1.0
Average number of people age 65 and older		0.1
Percentage sold to non-Floridians		0.3

Base case

Table 3 contains the results of the simulation for Sarasota, Charlotte and Lee counties, and for their respective school boards. The results are expressed as net present values in 1982 dollars. In each case, the simulations were extended ten years beyond the buildout year of 1986, so that the longer-term effects of the development can be evaluated. On an operating basis, this hypothetical subdivision would produce a surplus, having a net present value of $325,700 in Sarasota County; however, deficits of $389,700 and $589,800 would occur in Charlotte and Lee counties, respectively. Why does the sample project produce an operating surplus in one county but a deficit in others? In this case, it is because Sarasota County spends less per capita than does either Charlotte or Lee.

The impact of a development such as Generic Estates is even more severe on the fiscal position of the school systems in the area. In each case, the development results in a negative fiscal impact on school-system operating finances.

Table 3. — Base case — net present value of fiscal impacts (in thousands of dollars)

	County	School board
Sarasota County	325.7	-87.0
Charlotte County	-389.7	-519.2
Lee County	-589.8	-653.1

Variation in initial home values

In this set of alternative simulations, the assumptions displayed in Table 2 are retained except for the initial home values. These values are varied from $50,000 to $125,000, and the results are tabulated in Table 4 for both the county government and its school board. As expected, the lower the home value, the greater the fiscal stress when other factors are constant. It is interesting to note that even when homes are valued at $125,000, Generic Estates does not produce operating surpluses in either Charlotte or Lee County,

Table 4. — Variation in initial home values — net present value of fiscal impacts (in thousands of dollars)

Initial home prices	Sarasota County		Charlotte County		Lee County	
	County	Schools	County	Schools	County	Schools
$50,000	-23.6	-587.*	-687.2	-910.5	-969.5	-1,057.6
$70,000	176.0	-301.6	-517.2	-686.9	-752.2	-826.5
$85,000	325.7	-87.0	-389.7	-519.2	-589.8	-653.1
$100,000	475.4	127.6	-262.2	-351.5	-427.1	-479.7
$125,000	724.9	485.3	-49.7	-72.0	-155.9	-190.8

Table 5. — Alternative household sizes — net present values of fiscal impacts (in thousands of dollars)

Household size	Sarasota County		Charlotte County		Lee County	
	County	Schools	County	Schools	County	Schools
1.8	404.9	43.7	-205.7	-361.7	-336.2	-473.5
2.0	357.8	-32.5	-297.7	-440.3	-463.0	-563.3
2.2	325.7	-87.0	-389.7	-519.2	-589.8	-653.1
2.4	317.9	-98.3	-481.7	-598.3	-716.6	-742.9
2.6	238.1	-229.9	-573.7	-677.3	-843.4	-832.7
2.8	198.2	-295.7	-665.7	-756.3	-970.2	-922.5

based upon our assumptions and the existing fiscal structures in those two counties.

Variation in household size

For this set of simulations, the assumptions in Table 2 for Generic Estates were used again except for household size. Household size was varied from 1.8 to 2.8, and the results are shown in Table 5. As household size increases, both revenues and expenditures rise. However, for all three counties and their school boards, expenditures rise more rapidly than revenues. Thus, when all other factors are held constant, an increase in household size produces an increase in fiscal pressure on local government.

Conclusions

A number of conclusions can be drawn from these simulations. A continuation of current trends in the area will result in increased fiscal stress in the Charlotte Harbor Area. For Lee and Charlotte counties and their school boards, business as usual will not be possible through 1986. The fiscal pressures will grow too great, forcing changes in tax efforts and expenditures per capita, or both. Fortunately, the area does have considerable unused fiscal capacity.

However, only the effects of growth upon operating revenues have been examined. The Charlotte Harbor Area has a large backlog of capital facilities improvements that are needed now. To finance these improvements and the capital facilities necessary to service future growth, increased fiscal efforts will be required.

The scenarios also reveal that in general, residential developments and the growth they induce do not always pay their own way. Even though the direct fiscal impacts of a development may be positive, the induced growth can often tip the scales toward a negative fiscal impact. In addition, the results of the fiscal impact scenarios demonstrate their sensitivity to the assumptions that are made about the projects and their locations.

THE ECONOMICS OF IMPACT FEES

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An impact fee is a charge levied by a unit of local government (usually a city or a county) on new developments to generate revenues for capital improvements. In Florida, the fees are often assessed for water/sewer service and sometimes for parks, recreation or roads. As a general rule, impact fees are used for the construction of new facilities rather than for operation and maintenance of such facilities. Furthermore, the new facilities financed by impact fees must serve those paying the fees rather than the general public.

There are a number of reasons why local governments in Florida are levying impact fees. Generally, Florida's local governments are faced with the problem of how to expand needed capital facilities with a relatively fixed revenue source (property taxes), while at the same time not increasing the tax burden on existing taxpayers. Some of the specific reasons given by local governments for using impact fees include:

(1) since new growth does not pay its own way, an impact fee is needed to recover the governmental cost of new growth;
(2) since there is a demonstrated lag of one to two years between the occupancy of a dwelling and the initial flow of property tax revenues, impact fees are a one-time substitute for property tax shortfalls from the unit;
(3) impact fees represent a politically expedient method of raising revenue because few of the new residents who occupy the new dwellings were voters in the jurisdiction when the fee was invoked;
(4) the fees are one way of dealing with inequities in the distribution of state road and school funds; and
(5) impact fees are a technique to slow or stop growth.

The increasing interest in impact fees in Florida is consistent with trends across the nation generally and particularly in California.[1] However, the advent of impact fees in Florida in the 1980s raises a number of important economic, legal and social issues. First, impact fees raise the following economic questions.

(1) Do these impact exactions represent fees, or are they taxes?
(2) Does new growth pay its own way?
(3) What are the economic consequences of financing capital facilities through impact fees?
(4) What is the optimal method for financing and pricing capital infrastructure in Florida?

Second, there are a number of unanswered legal questions with regard to impact fees in Florida.

(1) Are impact exactions legal outside the utilities area?
(2) What precedents and statutes authorize impact exactions in non-utility areas?

Finally, is the use of impact exactions a good social policy? Do we really want to discriminate among residents based upon their dates of arrival in the community?

This article addresses the economic issues only. Although the legal and social issues with regard to impact fees are interesting, these facets of the problem lie outside of the author's expertise.

What is a tax and what is a fee?

Economists recognize a tax as an involuntary payment for which no specific good or service is rendered in return. Sales taxes, property taxes and income taxes are all daily examples. By contrast, a fee is a voluntary payment made in return for a specific good or service. Since the transaction is voluntary, the value of the good or service received must be less than or equal to the amount of the fee. Otherwise, the consumer would not make the transaction. Fees include building permits, payments for the services of a doctor or the prices paid for the myriad of goods and services that people purchase each day.

Given these definitions, which goods and services can be appropriately financed by taxes and which by fees? The answer depends upon the nature of the good or service itself. Economists separate goods into two categories: (1) public goods and (2) private goods. Public goods are identified by two particular characteristics. First, purely public goods can be jointly consumed by many people at the same time, and each person's enjoyment of the good in no way detracts from the enjoyment of the others. Second, once the pure public good is provided, no one can be excluded from enjoying it regardless of whether or not they have helped to pay for it.

National defense is the classic example of a pure public good. Once provided, no one can be excluded from the protection offered from national defense, even if they do not pay for their share. In addition, one person's enjoyment of the peace of mind provided by national defense in no way detracts from the enjoyment others receive from it.

By contrast, a private good cannot be jointly consumed by many individuals, and those who do not pay for it receive none. A hamburger is a private good — one person can purchase a hamburger and enjoy it, but others are excluded from consuming it.

More generally, because of the nature of the goods themselves, private goods are financed through prices and fees. Since the good or service cannot be jointly consumed and nonpayers can be effectively excluded from the benefits that the good provides, fees and prices are appropriate. Public goods must be financed through taxes because nonpayers cannot be excluded, and all people benefit from the public good regardless of whether they pay for it.

While this dichotomy appears crisp, there are two complications. First, both private and public goods are produced by governments. Governments produce everything from national defense to sewer services and building inspections. The distinction between a public and private good does not depend upon who produces the good; it depends only on the nature of the good itself. In this case, sewer services are a private good because nonpayers can be excluded and joint consumption does not apply. The sewer system is a closed-end facility because only those who pay for it can receive the service, and usage can be metered. National defense is an open-end facility because nonpayers cannot be excluded and usage cannot be measured.

The second complication arises because many public goods can be converted to private goods if sufficient effort is expended. The trick is to convert an open-end system into a closed-end system. Consider the example of a public park converted into a private amusement facility. Prior to conversion, the park was an open-end system. Many people could jointly enjoy the park; their usage was not metered; and the operations, maintenance and capital expenses for the park were defrayed by taxes. By erecting a fence and toll booths, the park can be converted to a closed-end facility and financed through a user-fee or price system.

Does growth pay its own way?

As indicated previously in the article on page 2, there is no answer to this question except that it depends on: (1) the kind of growth involved; (2) the value of the development; (3) location; (4) timing; (5) the characteristics of those who move in; (6) economic multiplier effects; (7) the fiscal structure of the community; and (8) other factors. To assess for local governments the cost and revenue implications that result from land development activities, Hank Fishkind, Neil

Table 1. — Generic Estates

1.0 Characteristics

Location: Sarasota County

Construction schedule:	1983	10 homes
	1984	30 homes
	1985	50 homes
	1986	50 homes
	1987	50 homes
Sales price:	$85,000	
Household size:	2.5	
School-age children:	0.4 per household	
Rental/seasonal units:	25 percent	

2.0 Scenarios

Base Case--shown above
#1-----$95,000 home value
#2-----$65,000 home value
#3-----0.6 school-age children per house, $65,000 home value
$4-----40 percent rental/seasonal units, 0.6 school-age children per household, $65,000 house value

3.0 Net fiscal impact

	Fiscal balance (in thousands of dollars)	
Scenario	County	School Board
Base Case	73.9	174.4
#1	119.9	256.3
#2	-18.5	10.7
#3	-18.5	-154.2
#4	-2.0	-125.4

Sipe and Jerry Milliman of the University of Florida's Bureau of Economic and Business Research have developed a fiscal impact analysis model. (See Neil Sipe's article in this issue: *Fiscal Impact Analysis: A Tool for Managing Growth*.) Figure 1 was generated using the model.

Table 1 illustrates the differential fiscal impacts that can result from the hypothetical subdivision of Generic Estates, located in Sarasota County, Florida. The top panel of the table displays the characteristics of the subdivision used throughout the exhibit as the base case. Notice that the fiscal impacts vary depending upon the assumptions made about Generic Estates. Thus, there is no set answer as to whether or not growth pays its own way.

What are the economic consequences of financing capital facilities through impact exactions?

The use of impact exactions to finance capital facilities has a number of important economic consequences including: (1) the effect on new construction activity; (2) the ultimate incidence of exaction; and (3) the implications for the aggregate economy of the community. A brief review of each of these consequences follows.

In Florida, impact charges are assessed against new private construction, and are generally collected when a building permit is issued. Thus, such charges initially raise the cost of new private construction. The effects of the impact exaction on the market for new construction, the incidence of the exaction (who ultimately pays it), and the consequences for the community's economy depend upon the behavior of the market for new construction.

To illustrate the behavior of the construction market, consider the residential housing market in Pleasant Beach (PB), a hypothetical community shown in Figure 1. New housing units are supplied to the market by home builders, who price those units to earn a profit. Since PB has many home builders, the market is competitive on the supply side. The upward-sloping supply curve indicates that builders are willing to supply more units to the market at higher prices and fewer units at lower prices.

Figure 1. — Residential construction market: Pleasant Beach, Florida

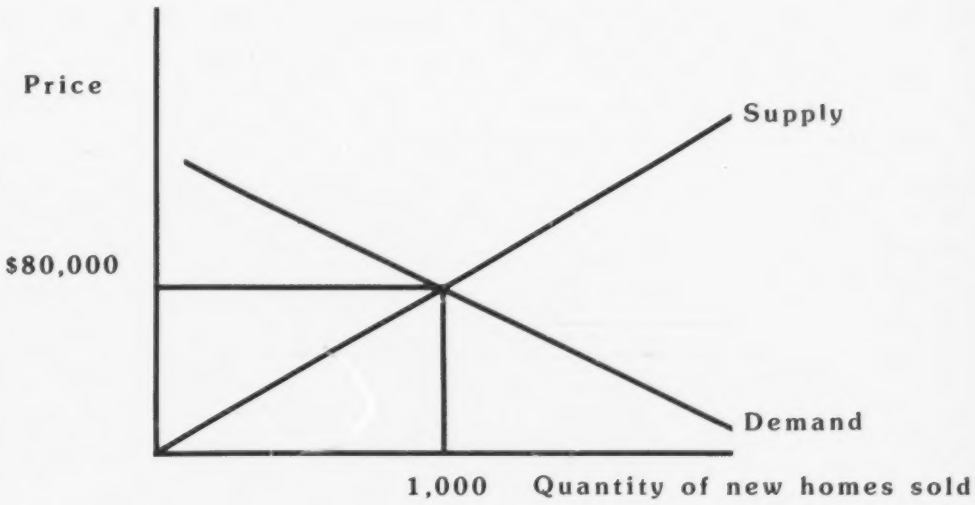
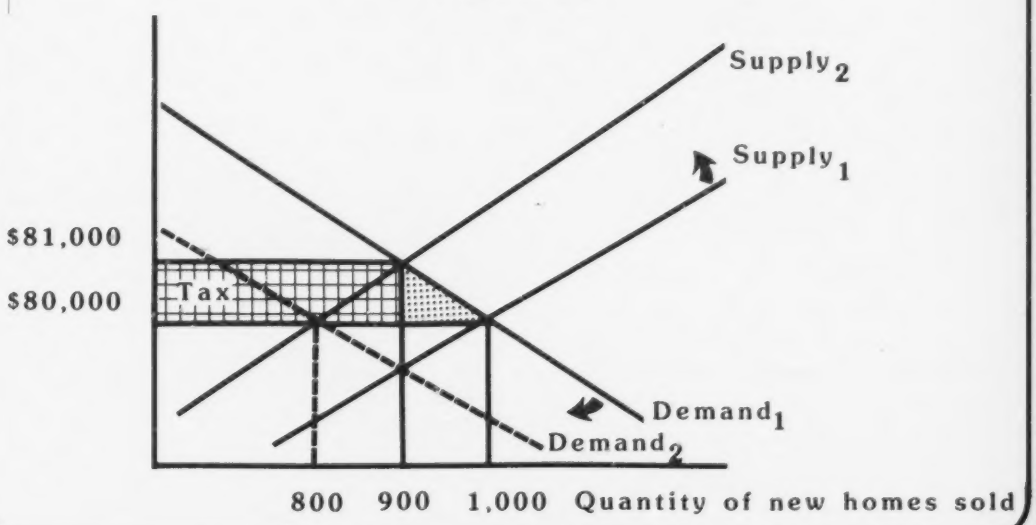


Figure 2. — Results of $1,000-per-unit impact exaction levied against all new residential construction



The demand curve in Figure 1 is a schedule of price and quantity combinations that satisfy potential home buyers in PB. At high prices fewer units are demanded, and at lower prices more units are demanded. Since there are many individual home buyers, the demand side of the market is also competitive. The diagram indicates that the PB market for new homes will be in equilibrium (demand equal to supply) when the average price of a new home sold is $80,000, and when 1,000 new homes are supplied to the market.

Imagine that an impact exaction of $1,000 per unit is levied against all new residential construction. The results are shown in Figure 2. First, the supply curve shifts to the left to $supply_2$ because with the new exaction, it has become more expensive to construct new homes. Builders are no longer willing to supply 1,000 units to the market at an average

price of $80,000. Instead, they would only supply 800 units at that price. If the demand for new homes in PB does not change, then the market regains equilibrium at 900 new units supplied and purchased at an average price of $81,000.

The impact exaction raises revenues equal to $900,000 as shown in the cross-hatched area in Figure 2. Builders receive $80,000 per unit on average. Home buyers will purchase few units at the higher price, assuming that their demand function does not shift. In this case the home buyers pay all of the impact exaction, and the builders face a smaller market and the opportunity to sell fewer homes. Also note that the darkly shaded area represents a dead-weight loss to the community caused by the imposition of the lump-sum exaction.

It is possible that the demand curve could also shift when the impact exaction is levied. Home buyers may decide that PB is not as congenial a place to live, and some decide to settle elsewhere. In this case the equilibrium price falls back to a mean of $80,000, and the number of new units sold contracts to 800. Here, the home builders must absorb the impact charge, and the exaction raises $800,000.

The latter case of a shift in the demand curve when an impact fee is levied is the less likely of the two outcomes for two reasons. First, the level of impact exactions in Florida has been modest to date. Second, the demand for new homes has been very strong because of rapid population growth. To the extent these two factors continue to hold in the future, impact exactions will not have much effect upon the demand curve for new homes.

This hypothetical example is most instructive, and some general conclusions can be drawn from it since other facets of the new construction market operate in similar ways. First, the imposition of a charge on new construction will reduce the amount of construction activity. Second, the exaction will rarely generate the amount of money expected, since construction activity will be lower because of the exaction itself. Third, in Florida the demand curve for new construction is unlikely to shift because of the exaction, so the cost of the exaction is shifted from builders to buyers. Fourth, the effects of the impact exaction on population growth in Florida communities are likely to be modest if the demand for new construction does not shift. Finally, impact exactions on new construction will have a modest, but negative, effect on the economy of the region that imposes such charges. However, if the charges are high enough, the demand curve will shift. Should this shift occur, the exaction will exert a significant depressing effect on the region's new construction market, its population growth and its economy.

What is the optimal method of financing or pricing capital facilities in Florida?

While there are many ways to finance capital facilities such as roads and water/sewer systems in Florida, these methods can be grouped into two categories: (1) pay as you go and (2) debt finance. The pay-as-you-go method requires that funds be accumulated in advance to purchase a capital facility in the future. By contrast, the debt-finance procedure finances the purchase of a capital facility today by obligating the community to repay the debt over time. Given Florida's current situation, the debt-finance method is the preferred procedure for financing new capital facilities.

Debt finance is preferred for a number of obvious reasons. First, debt financing allows capital facilities to be purchased today. The facilities can then be paid for as they are used by the public. This method provides the closest possible match between payments and services received. Second, in an environment of moderate inflation, it is better to build capital facilities today and repay the finance charges with inflated dollars, than to attempt saving sufficient revenues to finance the facilities in the future. Third, Florida's local governments can afford increased debt financing since the current debt level is so low and the unused fiscal capacity is so high.[2] Finally, Florida has a large backlog of unmet capital facilities needs caused by rapid population growth and the historical underfunding of capital facilities in our state.[3] In view of the prospects for continued rapid growth in the future,[4] it behooves us to accelerate the purchase of new and necessary public capital facilities.

As a corollary to the financing question, it is also important to analyze the question of pricing the services rendered by capital facilities.

This issue is particularly controversial in Florida because the advent of impact exactions produces a price system that discriminates against new users, who pay more than old users.

The rationale for charging new customers a higher price than old customers is logical and straightforward. Consider the following hypothetical situation, again using Pleasant Beach. Suppose that rapid growth requires PB to expand its water supply system by adding an expensive desalinization plant. The question arises as to who is responsible for the expensive expansion program: (1) a family who has lived in PB for forty years; (2) a family who has lived in PB for ten years; (3) a family who has lived in PB for five years; (4) the family who has just moved in; or (5) future new residents? It is often argued that if the new customers do not connect to the water system, the expensive expansion of the system will not be required. Therefore, it is the new customer's demand that caused the increase in costs. Thus, an impact charge is justified.

While this reasoning is logical enough, it reaches the wrong conclusion. The economic cost of serving new customers is no different from the true economic cost of serving old customers. If an existing customer did not stay on the system when a new customer requested service, the system would not require expansion. By staying on the system, the old customer causes precisely the same change in cost as does the new customer. There is no economic justification for differentiating an old customer from a new customer when both jointly use the same facilities. Both new and existing residents cause the same increase in costs; one by joining the system and the other by staying.[5]

This argument does not imply that all connection charges are invalid. To the extent that a new customer creates costs that cannot be avoided if an old customer leaves the system, such costs should be recovered through an impact exaction or connection charge. For example, the cost to run a connection line to a new customer and the cost of the required meter cannot be avoided even if an old customer leaves the system. Such costs should be collected solely from the new customer.

In general, the essence of economic costs is that they are available and causal. This is not an abstract notion; costs are caused or avoided by specific decisions. Access to and use of a water system generate costs, and those that are joint costs and could be avoided if old customers left the system must be paid for by all customers equally. Nonavoidable costs must be paid for by new customers only.

Conclusions

It is clear that Florida's local governments need to manage growth more effectively. However, they will need new and more powerful tools to be successful. In particular, local governments need additional sources of revenues to finance necessary capital infrastructure investments. Impact fees can make a contribution.

Impact fees are appropriate when the infrastructure being provided is a closed-end system. Since usage can be readily metered, a fee for services rendered is appropriate. By contrast, for open-ended systems where actual individual use cannot be measured, impact fees are improper. Finally, when impact fees are under consideration, the ultimate costs of a pay-as-you-go financing scheme must be carefully compared to the bond-and-build alternative.

FOOTNOTES

[1]Robert Applebaum et al., *The Effects of Urban Growth: A Population Impact Analysis* and Earl Finkler et al., *Urban Nongrowth: City Planning for People*. (New York: Praeger Publishers, 1976).

[2]Neil G. Sipe, "State and local government finance: problems and prospects," *The Florida Outlook*, Vol. 5, No. 4, Fourth Quarter, 1981, pp. 67-76.

[3]Neil G. Sipe, "Alternative approaches to local government problems in Florida," *The Florida Outlook*, Vol. 6, No. 1, First Quarter, 1982, pp. 71-86.

[4]Stanley K. Smith, "Projections of Florida population by county, 1985-2020," *Population Studies*, Bulletin No. 64, May, 1983, pp. 1-4.

[5]Steve H. Hanke and John T. Wenders, "Costing and Pricing for Old and New Customers," *Public Utilities Fortnightly*, April 28, 1982, pp. 43-47.

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PROPOSITION #1

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BUSINESS & ECONOMIC DIMENSIONS

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AN OVERVIEW OF PROPOSITION #1

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On November 6, 1984, Florida citizens will vote on Proposition #1 (or Amendment 1), which is the constitutional amendment known as Citizens' Choice on Government Revenue. It is designed to reduce the growth of state and local governments by limiting increases in revenues (broadly defined to include most receipts), and thereby limiting expenditures and the size and diversity of public services. Most authorities (pro or con) believe that the choice facing Florida voters is one of the most important in many years. Consequently, all voters should be completely informed.

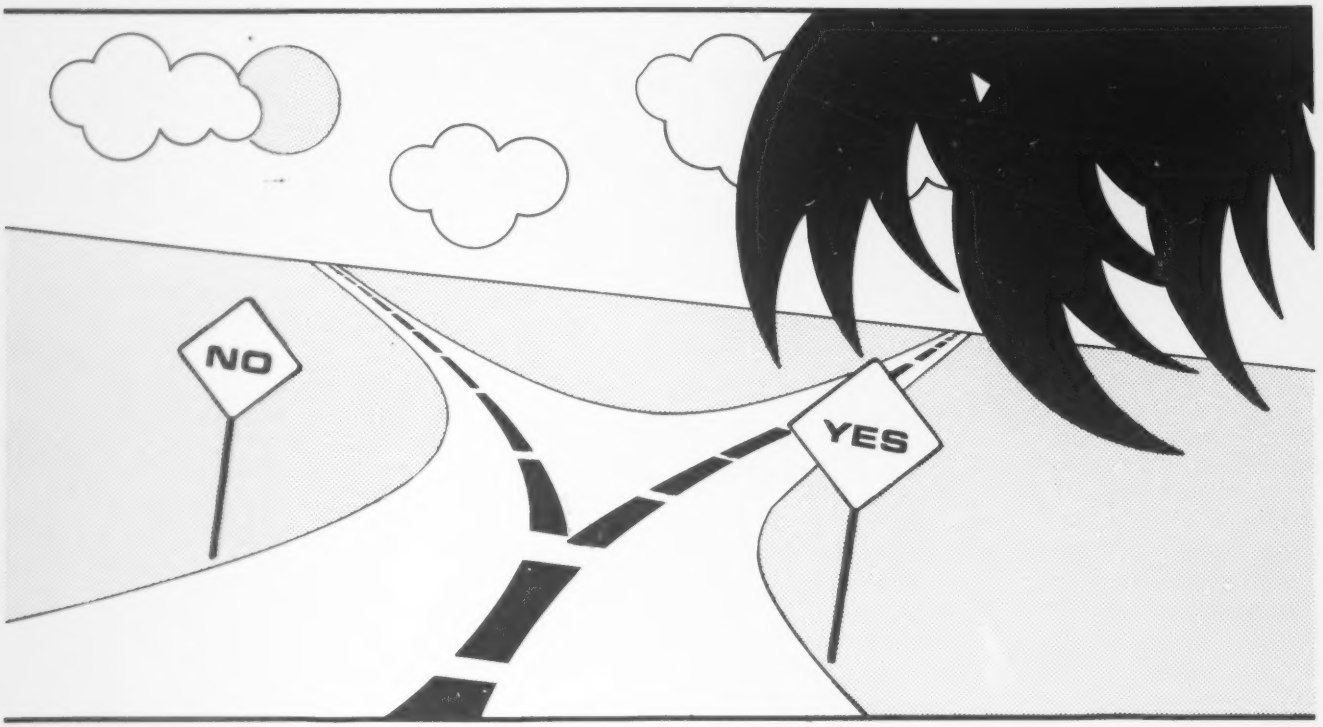
This article provides information on the definition and coverage of Proposition #1, as well as some of the related legal questions. The basic features of the amendment are described, along with brief comments on fiscal limitations in other states, although it is clear that Proposition #1 has no direct counterpart.

No stand will be taken for or against the amendment. Clearly, as with all important decisions, there will be benefits and costs. Additionally, because the amendment is considered to be controversial, "benefits" to some groups may be viewed as "costs" or "disbenefits" to other groups. Actually, no one can be certain about all of the effects of Proposition #1 because some of the legal definitions of "taxing units" and "revenues" will have to be decided by the courts. Legal authorities are not in agreement on the interpretation of the amendment. It is also possible that current litigation may strike Proposition #1 from the ballot.

Summary of Proposition #1

The amendment would limit the revenue growth of state and local governments beginning in fiscal year 1985-86. In that year, maximum allowed revenues would equal 1980-81 revenues, adjusted forward by the following limits:

- Revenues of state and local governments would be allowed to grow at not more than two-thirds of the percentage change in the Consumer Price Index (CPI) for the preceding calendar year.



- Two special provisions apply to ad valorem tax revenues:
  - Taxes due to new construction are excluded from the growth limit.
  - Regardless of the change in the CPI, revenue growth (excluding new construction) cannot exceed 5 percent.
- Revenue collected in excess of the authorized amount must be escrowed and counted as revenue in the subsequent year. Tax rates must then be lowered so that tax collections in the subsequent year, plus the carry-forward amount, fall within the prescribed limits.
- Revenues are defined to include all taxes and receipts including receipts of trust funds and proprietary funds, as well as interest earnings and gains on investments. Excluded from the definition of revenues are receipts from the federal government, proceeds of bonds or other borrowed funds and the acquisition cost of liquidated investments.
- *With* voter approval, the limits may be exceeded for specific purposes and specific amounts for up to two years, and for principal and interest payments for specific bonds designed for specific purposes.
- *Without* voter approval, the limits may be exceeded "to the extent necessary to avoid impairment of obligations of contracts and bonds existing prior to the effective date of [the amendment]."
- All taxpayers are given standing to sue for enforcement of the amendment and are granted recovery of costs if successful.

Some Striking Features of Proposition #1

Rollback versus Rollforward

The amendment does *not* call for a cutback to 1980-81 revenues. Instead, the 1980-81 revenue base is adjusted *forward* by two-thirds of the increases in the CPI and by special provisions applying to property taxes (ad valorem revenues). This adjustment means that many governments will be allowed 1985-86 revenues approximately 20 percent *above* their 1980-81 base. Yet, the 1985-86 Proposition #1 revenue limit may still be considerably *less* than the currently projected 1985-86 revenues and expenditures for most governmental units.

For example, it has been estimated that during the first year (1985-86) of Proposition #1,

the revenue limit will call for a 22.6-percent reduction of state revenues, or a decline of $2.4 billion from revenues (and expenditures) now projected for 1985-86. However, when compared to 1980-81, state revenues allowed by the limit would still have increased by 28 percent. Since 1980-81, the state's population has grown by 1.8 million, personal income has risen and expenditures for most all functions of government have increased. Yet, revenue growth for the state government would be capped at a rate that is two-thirds of the CPI. Provisions applying to ad valorem taxes do not apply to the state government, which is prohibited from using such taxes. Over time, state revenues under Proposition #1 would fail to keep pace with inflation, population growth and increases in personal income. This development would bring continuing pressure to shrink the size of state government in the face of rapid population growth. Thus, the reduction in state revenues is not a one-time adjustment, but a continuing cap at two-thirds of the CPI unless overridden by voters in referenda.

Provisions on Property Taxes

Ad Valorem taxes to local governments can increase by up to 5 percent per year. However, if two-thirds of the CPI is less than 5 percent, then the lower limit is binding. Ad valorem revenues on new construction are exempt from the cap. This exemption means that when growth of population and personal income results in new construction, local governments (not the state government) can obtain some additional revenues that are not subject to the revenue limits.

Proponents of Proposition #1 argue that new property tax revenues from new construction will enable local governments to provide for many new services without requiring a referendum. However, if local governments in Florida typically rely on ad valorem taxes for only 20 to 40 percent of total local revenues, it is possible that the cap on other revenue growth will limit the ability of local governments to meet the needs of population growth. New construction would also include increased assessments due to land improvements; however, increased assessments because of increased appraisals on existing property would not be considered exempt new construction.

Preliminary studies on property taxes allowable under the 1985-86 limit of Proposition #1 indicate that some cities in Florida are currently levying property taxes at levels *below* those allowable under the limits. It has been suggested that if local governments have reduced revenues from other capped sources, they may be forced to rely more on property taxes than is now the case. Further study of this question is needed.

The Broad Definition of Revenues

Many citizens currently view Proposition #1 as a measure primarily designed to slow down the rate of increase in taxes. Indeed, the rate of increase in taxes may be limited; however, it should be understood that it is total revenues and not taxes *per se*, that are limited to two-thirds of the CPI (except for special provisions on ad valorem taxes). Several points need to be stressed. First, individual revenue sources and taxes are not capped by Proposition #1. Because only total revenues are capped, there is no requirement for individual revenue or tax sources to be curbed. For example, individual taxes that have been increased since 1980-81 do not have to be adjusted. If a reduction in revenue is required, the government will have freedom under Proposition #1 to reduce any type of revenue. As a practical matter, however, some revenues may be tied to mandated functions so that this freedom may be restricted for other reasons.

Second, Proposition #1 defines public revenues very broadly as all receipts of revenue from whatever source derived, except as specifically exempted by the amendment. The only exclusions are revenues from the federal government, proceeds of bonds and borrowed funds and the acquisition cost of liquidated investments. Consequently, user charges for electricity, water, sewer, waste collection, library services and other government operations are counted as revenues. Gross receipts are counted instead of net income. Fines, bookstore sales, the interest earned on trust funds, dormitory fees, tuition payments and penalties for late payment are all to be counted as revenues. Intergovernmental revenues from the state to a local government could be counted twice, according to an opinion issued by the Attorney General. In other words, revenues received by the state such as sales taxes would be counted as revenues at the state level. If these revenues are then transferred to local governments, such monies would then

count as revenues received (from external sources) by local government. Only *internal* transfers of funds at a given level of government (either state or local) would not be included in the definition of revenues.

Implications of Revenue Definition for Local Governments

Now that it is established that revenues to be included within the cap are broadly defined, it is appropriate to offer insights on some likely implications for local governments. However, any discussion of likely implications is somewhat speculative out of necessity, since the definition of "revenues" to be included and the determination of the status of some special districts and authorities will have to be decided by the courts. Additionally, some of the implications are dependent upon which revenues local governments choose to limit and which expenditures are to be curtailed. Different governments may choose different courses of action.

First, it is clear that the revenue limitations of Proposition #1 are binding upon both the state and the local governments. Consequently, local governments cannot expect increases in state aid to shore up local revenues that are subject to reduction. The experience in California under Proposition #13 and in Massachusetts under Proposition #2½ is that mandated reductions in property tax revenues for local governments are offset to a substantial degree by increases in state aid to local governments in terms of "bail-outs" and "buy-outs." Additionally, local governments in California and Massachusetts did offset decreased property tax revenues by the imposition of new user charges and fees for various local public services. Under Florida's Proposition #1, state and local governments cannot turn to new user charges and fees, because these charges would be counted as increased revenues. Finally, in Florida it is likely that state aid or shared taxes to local governments will be reduced (not increased or even maintained at current levels). This outcome is not certain, but many authorities believe that large reductions in state revenues will necessarily imply substantial cuts in the state's shared revenues to county and city governments and perhaps to school districts. In 1982, state aid in Florida accounted for approximately 55 percent of the revenue for school districts, about 11 percent of total revenue for counties and about 7 percent of total revenues for cities.

Second, many cities in Florida have proprietary operations. If, indeed, the courts hold that it is the gross revenues (not net revenues) that are subject to the revenue limitation under Proposition #1, then some substantial problems arise. The attorney general's opinion holds that gross revenues received by municipally owned enterprises are included. Cities that operate utilities include Jacksonville, Orlando, Tallahassee, Gainesville, Key West, Lakeland, Ocala, Fort Pierce, Kissimmee, Lake Worth, Homestead, Jacksonville Beach, New Smyrna Beach and many others. Most of the gross revenues from utility operations are needed to cover the costs of operation and to provide service to new customers. If the gross revenues from utility operations have expanded greatly since 1980-81 (as is generally the case), then it may place the cities under considerable stress to stay under a 1985-86 cap moved forward from 1980-81 by only two-thirds of the annual increase in the CPI.

For example, the City of Gainesville in 1983-84 has a budget for general government of about $27 million, of which $4.3 million is to be raised by ad valorem taxes and $6.9 million is to come from profits from the city's utility operations for electricity, water and sewer services. By contrast, the budget for the utility operation is $125 million, most of which represents operation and maintenance. Large increases in the growth of Gainesville utility revenues took place subsequent to 1980-81. It is easy to show that there would be a "shortfall" of more than $36 million in 1981-82, which would be just the first year of operation based upon a 1980-81 base defined by Proposition #1. The implication for the City of Gainesville would be to give up its utility operations.

The alternatives for governments having enterprise operations are not clear. In some cases, it would be possible to sell these operations to private enterprise. It might also be possible to set up some separate (independent) authorities or nonprofit corporations to comply with the limitation. It is not clear what options currently are available to local governments with growing municipal-enterprise revenues. Of course, Proposition #1 protects all existing contractual obligations so that debt service can be covered. However, the question is how to cover operation and

maintenance costs when increases in gross revenues are limited to two-thirds of the CPI.

Third, the definition of revenues to be included under the cap would seem to apply to tourist development taxes (commonly called resort taxes) that are being used to finance convention centers and other tourist-related activities. Orange, Osceola and Volusia counties levy such taxes. In Orange County a 2-percent resort tax is levied on hotel and motel rooms and campsites. These revenues are unquestionably growth revenues that will rise in the future as new hotels are built, as occupancy rates rise and as room rates increase. For the year ending September 30, 1983, Orange County's resort tax revenues were $6.6 million, which is 11.5 percent above projections. Orange County is using its resort tax to pay off the bonded indebtedness for its convention and civic center, which cost $50 million. Again, contractual obligations are protected under Proposition #1, but it is clear that future bookings at the convention center will generate revenues so that more bookings and more revenues may present revenue limitation problems for Orange County.

Referenda

Proponents of Proposition #1 are careful to point out that all of the restrictions in the amendment can be overturned by a majority vote of the relevant voters. Currently, only general-obligation bond issues of local governments require approval by the voters. Revenue bonds for utility construction or for airport authorities are not placed on the ballot. Under Proposition #1, *all* new bond issues (and probably all refunding issues) would be subject to majority vote. In addition, voters can approve exceptions to the revenue limitations for two successive fiscal periods.

There is a strong feeling among proponents of Proposition #1 that by forcing governments to obtain voter approval for revenue exceptions, citizen control and interest in state and local government will be strengthened. Voter turnout in Florida elections has been declining. It is asserted that if voters believe their votes will "really" make a difference (because a clear-cut choice is involved on increased revenues for specific purposes), voter interest will greatly increase. Certainly, there appears to be a grassroots feeling that more citizen input and participation in government is desirable.

Professional public servants are not as enthusiastic about referenda. Their arguments say that getting specific approval from the voters to exceed the revenue cap for specific programs would make it difficult to hire competent people and plan long-run programs if the outcomes are dependent upon "reselling" the program every two years. Some political scientists are skeptical that voter interest can be heightened by constant and repeated referenda. Will citizens take the time to inform themselves on the complexities of problems facing a fast-growing metropolitan area as opposed to the "town meeting" approach of a small New England community? It is also pointed out that direct citizen control represents a weakening of representative government and a strong step toward populist rule. Finally, some observers are concerned that the costs of frequent and continuing referenda are likely to be considerable.

There is little hard evidence now to give great comfort to either side. However, there appears to be a growing consensus among all observers that public officials need to do a better job of explaining to voters what they do and why certain programs are necessary.

Some Legal Questions

This article is not intended to be a definitive discussion of some of the legal questions raised by attorneys in the interpretation and expected operation of Proposition #1. Instead, brief mention will be made of some of these legal questions that will ultimately be decided by the courts.

What is a Taxing Unit?

Probably the most important legal question is: "what is a taxing unit?" Revenues or receipts received by taxing units are subject to the limits. For "standard" governmental units at the state, county or municipal level there are no problems because the power to tax is quite evident. The problem arises when there are many kinds of special districts and authorities, and to what extent these entities are "taxing units" subject to the restrictions of Proposition #1.

Currently, there appears to be general agreement that special districts which are "independent" or freestanding and do not have the power to tax, but only the power to levy fees for services rendered, are exempt from the

limitations of Proposition #1. For example, some drainage districts and fire control districts would seem to meet these requirements. Again, it is not clear how "independent" will ultimately be defined, or how certain it is that the fees levied are *not* special assessments and therefore a species of taxes.

By contrast, districts and enterprises that are clearly "dependent" creatures of an overlying government unit with the power to tax are under the cap. For example, the tuition and bookstore revenues received by state colleges and universities would be counted as revenues received by the state. As indicated above, revenues from public utility enterprises owned by municipalities would be counted. Special assessments on parcels of land levied under the taxing power, even though not strictly a tax, would appear to be a special species of tax according to the attorney general. For example, special assessments for paving or improving streets approved by a city council would constitute revenues subject to the limitations.

The "gray" area on special districts relates to some public authorities that have their own board of directors and appear "independent," but do have some financial relations with a city or a county. In Jacksonville, for example, there is some question whether the port authority, the hospital authority and the downtown development authority are subject to the revenue cap. In Orlando, there is disagreement over whether the airport authority is truly independent and free from the cap or whether it is dependent and covered. Judicial determination on these issues will be necessary.

What is Revenue?

It is generally held that all of the following are considered revenues under Proposition #1: taxes, licenses and permits, state aid to local governments, receipts from other local governments, charges for services, fines and forfeitures, pension fund earnings, rents and royalties, proceeds of insurance settlements, court awards, enterprise revenues, grants and gifts from private and public sources (except federal funds), earnings on investment funds, profits from the sale of securities, and proceeds above acquisition cost from the sale of tangible assets.

The following items are generally *not* considered revenues under Proposition #1: loan proceeds, federal funds, tax-anticipation note proceeds, balances carried forward from previous years, internal transfers of funds, interfund transfers (including municipal contributions to municipal pension funds) and money withheld from employee paychecks for Social Security, federal withholding tax, payroll savings and related items.

Local governments often have not considered the definition of "revenues" for their general accounting purposes to be so broad as defined in Proposition #1, especially when many of these kinds of funds are not included in annual budgets. Moreover, budgetary offices in local government tend to be separated from the financial accountants. Clearly, many local governments are working very hard to determine what should or should not be counted as revenue. Additional parts of the problem are such practical matters as how to differentiate between federal funds involved in medicaid reimbursements to local county or municipal hospitals, which are not to be counted, from other hospital receipts that are to be counted. Again, some of these matters will require judicial interpretation.

Treatment of Annexations

All authorities agree that Proposition #1 will affect all annexations since 1980-81. Proponents of the amendment have argued that such annexations (which in all cases generate increased revenues) can escape the revenue limits only if there is a referendum in the combined area to ratify the annexation. It is claimed that this procedure would allow the creation of a new tax unit and the establishment of a new base. If such referenda are not held or do not pass, total revenue growth would still be limited to the adjusted 1980-81 base.

Other legal opinion on the questions of how to handle annexation is divided. Some attorneys believe that treatment of annexations under Proposition #1 is very unclear and that judicial guidance through litigation will be necessary.

Experience with Fiscal Limitations Elsewhere

This section is not designed to provide a definitive review of the fiscal limitation movement (FLM) elsewhere, but instead, will provide a perspective on the FLM and contrast Florida's Proposition #1 with experience in other states.

Fiscal Limitation Movement

Fiscal limits have been adopted by more than thirty states in recent years, with most of the limitations occurring since the late 1970s. Fiscal limitations have been defeated at the polls in only a few states. In California, Proposition #9 was defeated (June, 1980) after Proposition #13 (June, 1978) and Proposition #4 (November, 1979) were already in place. In Ohio (November, 1983) two measures on the ballot as part of a tax revolt to limit and repeal taxes were defeated. However, the FLM has generally enjoyed success in recent years.

There is a belief among political scientists that a fundamental change in the thinking of the electorate has taken place. These beliefs are always subject to debate, but there appears to be a widespread distrust of the political system, "big" government and the exhortations of the elite. People apparently want less government, more-efficient government and greater participation in and direct control of government. This attitude stems from a perceived inability of citizens to control the provision of public services through the public sector. These political scientists who sense this public-attitude shift argue that all public agencies and personnel should take the FLM seriously and learn how to live with it.

Economists and political scientists have just begun to study the FLM, which has surged to the forefront since the late 1970s. It is far too early to judge the *long-run* effects of this movement. If the limits prove to be binding, we should expect to see a shrinking of the public sector, more functions being performed in the private sector, and a shift in the distribution of public functions between state and local governments.

It seems fair to conclude that the short-run effects have not been dramatic, despite predictions of dire consequences and/or amazing benefits. Neither the benefits nor the costs appear to have been as great as expected by supporters or opponents.

The California Experience

California has two FLM propositions in effect. Proposition #13 decreased the property taxes collected by local governments by approximately $7 billion. Additionally, maximum property taxes cannot exceed 1 percent of fair-market value. The state government does not collect property taxes. The short-run effects apparently have included some reduction in local services such as schools, libraries, parks and recreation; however, police and fire services were maintained. Additionally, there was an increase in service fees and user charges and most importantly, large increases in state aid to local governments ("buy-outs" and "bail-outs"). This last step means that the cuts in the quantity and quality of local public services were far less than predicted. Overall, there was a large increase in the power of the state government relative to local governments, and in effect, made local governments more like wards of state government. Some of the state aid to local governments came from large state surpluses, which have now been exhausted. California appears to be learning a painful truth; a five-year program of cutting taxes without fully curbing expenditures will lead to deficits when a sharp recession comes along.

California's Proposition #4 limits state and local public spending to a formula based upon population change and the lower of either the change in the CPI or growth in per capita personal income. There is no limit on fees or user charges not in excess of costs. Because these limits do allow for population growth, full changes in the CPI, and the ability to impose user fees, the limits have not yet been binding or operative.

It should be noted that Florida's Proposition #1 is more binding than Proposition #4 upon both state and local governments. The definition of revenue to be limited is more inclusive, and the caps on revenue growth are more restrictive. Florida's local governments cannot expect state aid, and cannot turn to user changes and fees. Municipal enterprise revenues are counted. Only two-thirds of the increase in the CPI is permitted except for ad valorem taxes on new construction for local governments.

The Massachusetts Experience

Proposition #2½ in Massachusetts passed by a 60/40 margin in November, 1980 and took effect in January, 1981. Property tax rates for local governments (not the state government) were limited to 2.5 percent. Cuts of 15 percent per year in spending were required until the mandated level was reached. A simultaneous limit of 2.5 percent on annual levy increases was also imposed regardless of growth of new construction.

Again, we know only the *short-run* effects of Proposition #2½, which dealt only with local government property taxes. Effects across individual cities varied greatly depending upon tax rates, assessments and the amount of taxable property per capita. In general, older central cities were hit harder than more-wealthy suburbs. There were cutbacks in services such as schools, libraries, parks and recreation. Salaries and positions in government were frozen; street and capital maintenance schedules were lengthened; and there were substantial increases and impositions of user charges and fees. There also was a large increase in state aid to local governments. Finally, many cities simply raised assessments on property to fair-market values so that there was little decrease in property taxes overall.

More time must elapse before students of public finance in Massachusetts can assess the measure's long-run effects. Again, Florida's Proposition #1 is substantially different than Massachusetts' #2½. Thus far, the experience in California and Massachusetts suggests that cuts in police and fire services tend to be smaller than cuts in other local public services.

Other State and Local Fiscal Limitations

As of mid-1981, more than thirty states had placed fiscal limitations on cities, counties and school districts. Before 1970, only four states had such limitations. It would be tedious to evaluate all of the variations in fiscal limits on local governments across thirty states. In many instances, insufficient information exists on the effectiveness of such limits. They seem to be somewhat effective in Arizona, Colorado, New Jersey, Ohio and Washington for nonschool governments. In Arizona, Colorado, Iowa, New Jersey, Ohio and Wisconsin, the limits have kept brakes on school spending.

The general conclusion is that in cases where the limits on local property taxes have been effective, they have been associated either with large increases in state aid or with access to nonproperty taxes. In New Jersey and Arizona where there are overall spending limits, there is some evidence that local spending has been limited.

At the state level, nineteen states have adopted fiscal limits since 1977. Seven states have gone the constitutional amendment route and twelve states have adopted statutory limitation measures. Colorado has a flat limit of a 7-percent increase in annual expenditures; Rhode Island has a cap of an 8-percent annual increase; while Arizona limits expenditures to 7 percent of personal income. The rest of the states have limitations based upon annual increases in the growth of personal income, inflation or population.

No state appears to define revenues to be curbed as broadly as does Florida's Proposition #1, although this matter deserves more study. The provisions for overriding the many types of limits vary greatly. Overall, it is far too early to assess the effectiveness of fiscal limits across the nineteen states.

Overview Perspective

The fiscal limitation movement (FLM) is strong in Florida and in other states, and should be taken seriously. Proposition #1 is more complex than it appears initially, and will require much more study and discussion. There must be better notions of how to define "revenues" and "taxing units." All governments in Florida need to study carefully the possible effects of Proposition #1 on their individual revenues. All governments also need to examine their expenditure and spending programs, and should have contingency programs. All governments need to do a better job of informing citizens as to what they are doing and why particular programs are important. Additionally, they need to find new ways to get citizen input and participation.

The citizens of Florida have equal and complementary responsibilities. Proposition #1 is certainly one of the most important and far-reaching issues facing Florida voters in recent years. None of us can be completely certain what the real effects will be. Preliminary indications are that government revenues under Proposition #1 at all levels in Florida will be much less than are now being planned for 1985-86. Unless limits are raised by referenda, cuts in expenditures will follow.

The questions of which revenues will be cut and which expenditures will be reduced require serious discussion. Voters need to be well informed, and should talk with each other and with government officials. Instead of acrimony, the issue requires careful and sober discussion. Citizens should not be nonpartisan wallflowers, but they should engage in complete and open discussion.

THE CASE FOR PROPOSITION #1

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At the recent conference on the economic and legal issues of Proposition #1, three leading proponents of the measure presented their case.[1] The proponents included Proposition #1 co-authors George Schulte and Michael Block who serve as the chairman and treasurer, respectively, of the Limit Government Committee. Also speaking on behalf of the measure was Edward Havill, Lake County Property Appraiser and chairman of Floridians for Tax Relief. These proponents provided five main arguments in favor of Proposition #1:

(1) the proposition will make government more responsive to the desires of the electorate;
(2) it will limit the growth of government;
(3) government will cease subsidizing private development;
(4) Proposition #1 is flexible and will allow for necessary government services; and
(5) it will promote efficiency in government.

Each of these arguments will be examined in greater detail.

Proponents argue that Proposition #1 will make Florida's state and local governments more responsive to the people. For example, Havill contends that "Amendment One [Proposition #1] is a change in [the] philosophy of government . . . Amendment One merely says that 'Yes, government has a right to *part* of the money in a taxpayer's pocket to provide

Table 1.

Consumer Price Index Increases

Calendar year	Consumer Price Index	Percent increase	2/3 of percent increase
1979	217.4	—	—
1980	246.8	13.55	9.00
1981	272.4	10.40	6.90
1982	289.1	6.10	4.10
1983 projected	300.7	4.00	2.70
1984 projected	318.7	6.00	4.00
1985 projected	337.8	6.00	4.00

The above Consumer Price Index is the average for the specified calendar year. The above "2/3 of percent increase" for each year is the inflation increase applied to the fiscal year beginning in the following calendar year.

Source: *Florida's Amendment 1 — Facts, Fallacies and Philosophies:* Michael Block, CPA, Treasurer, Limit Government Committee

necessary services, but if it wants more than part of a taxpayer's money, then the taxpayer should help make the decision as to whether he, the taxpayer, wants to spend the extra money for that extra service.' "[2]

Block notes that "the real issue is not the Amendment 1 tax limit formula or any specific tax limit formula. The real issue is the right of voters to approve or disapprove of the levels of government taxes and spending."[3]

Proponents claim that two provisions in Proposition #1 will make state and local government more responsive to the electorate. First, the proposition will curtail the growth in government revenues. As noted above, the measure limits the increase in government revenues to two-thirds of the rate of increase in the Consumer Price Index, plus revenues from new construction, with certain exemptions and other restrictions. Advocates state that by design, the proposition will limit government revenues, thus forcing government to spend more carefully.

Table 1 illustrates in greater detail the formula for computing the CPI increases.

Second, the proposition provides that the voters in any taxing jurisdiction can, by referendum, vote to exceed the revenue limit for specific purposes for up to two fiscal periods. Also, additional revenues in excess of Proposition #1 limits can be raised to finance bond issues when these issues are approved by a referendum.

The revenue limit and referendum provision work together to force elected officials to submit requests for additional funding to the electorate. As Block notes, "Requiring voter approval every two years can check runaway operating costs of seemingly worthwhile programs."[4] Over time, with their budgets growing at only two-thirds of the Consumer Price Index (plus the other adjustments), political leaders and budget officials will have to seek yearly approval of their budgets or face the yearly task of reducing spending to match revenue.

Finally, proponents believe that the need for budget referenda is quite healthy. In an era when technology will reduce the cost of direct voter participation, they argue that more direct

democracy is better. Furthermore, they claim that voter participation will increase under Proposition #1 because budget referenda will be more interesting to voters than selecting among local candidates for office.[5]

A second goal of Proposition #1 is to limit the growth of government. Schulte and Block, as the co-authors of Proposition #1, designed the measure to limit government. According to Block, "Government must respond to voter needs and demands, particularly the demand to limit the scope of government. Voters believe costs are too high, relative to ability to pay and services delivered. It is time to trust the voters to determine what services are needed, because the current system lacks accountability and is generally not working."[6]

Schulte adds that over the last few years, total state and local taxes in Florida have grown too rapidly relative to the ability of Floridians to pay these taxes. Schulte notes that over the last fourteen months, state taxes have jumped by $1.4 billion, which amounts to $340 per family. Florida ranks eighth in terms of total state and local tax collections. State spending is in excess of $3,000 per family, and the budget has more than doubled over the last five years.[7]

Schulte argues that this profligate spending and taxing cannot be justified. Population increased by just 16 percent over the last five years while state revenues more than doubled. Furthermore, Schulte concludes that "Florida is not a wealthy state." He adds that Florida is the thirty-second poorest state in the union and that one out of every six Floridians has an income below the federal poverty level. Schulte says that this situation is caused by the influx of retirees who live on fixed incomes.[8]

Thus, government growth must be stopped. Proponents argue that the best and perhaps only way to accomplish this goal is to limit government revenues. According to Havill, "Anything less than a cap on all taxes, licenses, fees and service charges would be ineffective."[9]

The third argument offered by proponents is that Proposition #1 will prevent government from subsidizing growth. Havill argues that,

> "Amendment One will encourage taxing authorities to look at public expenditures, possibly more carefully than they look at them today.
>
> "We envision building and zoning departments, after passage of Amendment One, requiring developers to provide roads, sewer, water, etc., for their subdivisions prior to approval of their plat.
>
> "This is already being done in some areas of the state, but not in many other areas.
>
> "Why should existing residents continually subsidize facilities for new residents?"[10]

Fourth, the measure's supporters claim that Proposition #1 is flexible and will allow for necessary government services. According to Block,

> "Amendment 1 is very large in terms of covering all revenues, except for loans, cost of investments sold and federal grants. It is soft in only deciding when tax districts must get voter approval. It requires each tax unit to obtain such approval from its voters, in order to raise more tax dollars than it did in 1980, plus two-thirds of inflation since then. Property taxes on new construction are exempt, but property tax inflation increases are limited to 5 percent a year. Therefore, even without a vote, Amendment 1 permits a fairly generous compounded growth in revenue. Instead of rolling taxes back to 1980 levels, as opponents have repeatedly falsely claimed, Amendment 1 will allow initial 1985 limits to be at least 20 percent higher than 1980 taxes."[11]

Consequently, state and local revenues are allowed to grow under Proposition #1; however, revenue growth will be far less than would otherwise be the case. Even so, proponents claim that government will have adequate revenues to provide necessary services, particularly because government will be forced to become more efficient (a topic discussed below) and because of the many revenue exemptions that Proposition #1 allows.

Proponents argue that the revenue limits under Proposition #1 are not nearly as restrictive as they appear. First, revenues necessary to maintain bond obligations and contracts are expressly allowed. Second, by reducing transfers of funds between the state and local governments, revenues at the state level could be reduced for Proposition #1 purposes with no real loss in resources.

For example, Block explains that state government collects approximately $1.9 billion in taxes, which it transfers back to the various

Table 2.

Budget of Pleasant Beach, Florida

	1980-81	1981-82	1982-83	1984-85
General fund				
Revenues	100	120	140	175
Expenditures	90	110	130	165
Water-sewer fund				
Revenues	100	120	140	0
Expenditures	90	110	130	0
Totals				
Revenues	200	240	280	175
Expenditures	180	220	260	165

local school boards in the form of state aid to education. Block suggests the following alternative.

"What if the bulk of the funds the state takes to Tallahassee, so it can give them back to local school boards, were kept in the counties in which they were raised? What if this were done with a required local school sales tax? Such a tax could replace the state sales tax. The state could still act as collection agent, for which it would receive excess taxes raised in any county. It could use some of these funds to make up the shortage in other counties and still have the $0.9 billion it now has. This could eliminate a very substantial amount of state revenue for Amendment 1 purposes, without reducing actual income at all."[12]

Through such schemes, Block estimates that $2.4 billion in state revenues could be eliminated.

Additionally, by substituting direct taxes at the local level for indirect state taxes with transfers to local government, government budgets will be more understandable to the voters. Finally, the use of direct taxes instead of indirect taxes will result in no change in real resources at the local level, while allowing state government to reduce revenues and spending to meet Proposition #1 limits.

For local government, Proposition #1 also provides for large exemptions. Unlike state government, local governments cannot substitute direct taxes for indirect taxes and have their revenues decline. Since local governments receive the transfers, their revenues remain the same whether they receive a dollar in transfers from state government or whether the dollar comes from direct taxes. Local government's exemptions come from their ability to spin off functions to the private sector.

Proponents argue that local government is involved in too many activities. As Block states, "Government facilities, including water and sewer plants, garbage disposal plants . . . golf courses and other recreational facilities are exempt from property taxes. In addition, related expenses are part of tax budgets. These facilities and related services can be spun off to the private sector, without voter approval."[13]

Such a spinoff would lower both the expenses and the revenues of the affected local government. For example, Table 2 indicates that in fiscal year 1980-81 Pleasant Beach had total revenues of $200 and total expenditures of $180. Pleasant Beach operates a water-sewer system in addition to general municipal services. Over time, both revenues and expenditures grow. If Proposition #1 were passed, Pleasant Beach's revenues would be limited based on revenues received in 1980-81. Should Pleasant Beach spin off its water-sewer

system in 1984-85 by creating a nonprofit corporation or by outright sale, both revenues and expenditures would be reduced. Notice that the effect of the spinoff is to reduce total revenues below their 1980-81 levels. Pleasant Beach could then raise other revenues up to the Proposition #1 limits, which would be higher than the 1980-81 revenue level.

Proponents argue that necessary government services can be maintained under Proposition #1 because revenues are allowed to increase, but more slowly than before. Additionally, many forms of revenues are exempt. Finally, government can spin off those services that generate revenues.

The fifth argument used by proponents is that Proposition #1 will increase government efficiency. According to Havill, "Government in Florida and the management of public monies in Florida will improve drastically after the passage of Amendment One."[14] This improvement will occur because as Block states, "Amendment 1 encourages efficiency, forces government to explain things simply to voters and forces it to decide on priorities and least needed items. If government doesn't do this, it risks voter disapproval of needed extra taxes, because of adverse media publicity of inefficiency and its failure to set proper priorities."[15]

Simply put, the limiting of growth in government revenues will force government to be more efficient. Additionally, government will have the incentive to spin off functions that can be provided in the private sector, further improving efficiency.

To summarize the case for Proposition #1, Block says that " . . . we give government enough to run normal day-to-day business. By being elected to public office or by working for a public body, government employees volunteered to do the job with the budget we decided to give. We will help in making decisions and get needed extra money by allowing referenda. However, it is the job of government employees to make ends meet for the government, just as it's our job to personally make ends meet, for ourselves and families, with our remaining income."

"When analyzing budgets don't look only at last year's revenue, but at how they were spent and what was left over. Separate operating costs from capital expenditures. If this approach still leaves you short, remember the bottom line: Amendment 1 limits are not cast in concrete. They can always be exceeded by a simple majority of voters in a tax unit. The sky's still the limit, with voter approval. Therefore, there is not and will not be any risk of government bankruptcy, loss of vital services or Florida falling into the ocean. There will be greater accountability, efficiency, prioritization and voter participation. In the long run, this will be good for voters, elected officials, government employees and all concerned."[16]

FOOTNOTES

[1]The conference, Proposition #1 — The Economic and Legal Issues, was held on November 4, 1983 in Lake Buena Vista. It was funded and sponsored by M. G. Lewis and Company of Winter Park, and organized by the Bureau of Economic and Business Research. Proceedings of the conference were published in *Proposition #1 — The Economic and Legal Issues*, Bureau of Economic and Business Research, University of Florida: Gainesville, Florida, 1983.

[2]Edward Havill, "Outline," in *Proposition #1 — The Economic and Legal Issues*, *op. cit.*

[3]Michael Block, "Florida's Amendment 1 — Facts, Fallacies and Philosophies," *op. cit.*

[4]*Ibid.*

[5]*Ibid.*

[6]*Ibid.*

[7]George Schulte, untitled comments, *op. cit.*

[8]*Ibid.*

[9]Havill, *op. cit.*

[10]*Ibid.*

[11]Block, *op. cit.*

[12]*Ibid.*

[13]*Ibid.*

[14]Havill, *op. cit.*

[15]Block, *op. cit.*

[16]*Ibid.*

THE CASE AGAINST PROPOSITION #1

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Over the last few months many public officials, legal experts and financial analysts have spoken out against Proposition #1. At a recent conference, Proposition #1 — The Economic and Legal Issues,[1] many of the limitations and problems with this measure were articulated, and this article synthesizes the opponents' arguments in a manner similar to the preceding article, "The Case for Proposition #1." Five issues are discussed:

(1) Will Proposition #1 make government more responsive to the desires of the electorate?
(2) Will Proposition #1 limit the growth of government?
(3) Will Proposition #1 force government to stop subsidizing growth?
(4) Is Proposition #1 a flexible measure that will allow government to provide necessary goods and services? and
(5) Will Proposition #1 promote efficiency in government?

These issues are discussed below.

Proponents of Proposition #1 argue that it will make state and local governments more

responsive to the needs and desires of the electorate. They cite its revenue limits and its provision for referenda to raise revenues above the limits as two key features that will make government more responsive. Since government revenues can grow by just two-thirds of the increase in the Consumer Price Index (exclusive of federal grants, but including taxes from new construction), government will be forced to clearly justify programs on a regular basis to the electorate. Otherwise the referenda will be defeated.

While this approach appears straightforward enough, opponents claim that in practice it will not work. To maintain vital government functions, county administrators say that local governments will spin off various governmental services. According to James Harris, Orange County Administrator,

"I believe the Attorney General's opinion is correct, and that government "proprietary" activities such as a sewer or water operation, an airport, an electric company or possibly even an expressway authority are included in the term "taxing unit," and they cannot escape the revenue cap. Should this opinion be correct, then I believe there will be a rush to establish new authorities by Special Acts in order for such growth-driven activities to continue some reasonable operations and response to service demands. In Orange County such action would remove $118,000,000 from the county's $437,000,000 budget, or some 27 percent of the revenue, thereby possibly giving relief to other functions. At the same time, such authorities can remove the activities from the immediate supervision and control of officials elected by the people."[2]

Harris is not alone in his analysis. As Broward County Administrator Floyd Johnson argues,

"There is no doubt that passage of Proposition One would result in a radical shift in the types of programs provided by Broward County, a reduction in the level of service offered, and changes in the method of pricing public services. It is conceivable that some programs would be eliminated; some programs would be provided by the private sector or special districts; many services would be reduced and many user fees created or increased . . .

"In lieu of service reductions, a promising strategy for dealing with Proposition One would be to divest the County of services that generate all, or a large part, of their own revenues. This could be accomplished through franchising, privatization or creating a separate special district or authority. It appears that by shifting an existing service from the County to the private sector or authority, the county would retain the revenues that were generated by that service in the authorized revenue base. There are a few programs that lend themselves to this approach. These include but are not limited to: airport operations, solid waste collection and disposal, water and wastewater, and animal control."[3] However, Johnson cautions that " . . . the proliferation of separate districts and authorities will add to the public's confusion over who provides what service."[4]

Thus, as government attempts to maintain necessary services, there likely will be a proliferation of special districts appointed by county and city commissions. Overlapping single-purpose special districts, each with its own board and the power to charge fees for their services, will not make for coordinated or responsive provision of governmental services. This unintended result of Proposition #1 may lessen rather than increase the responsiveness of government to the electorate. For example, Gainesville City Manager George Morgan notes,

"Thus, Proposition 1 comes at a time when population growth in Florida will be rapid [ly] increasing. This growth compounds the urban problems faced by municipal governments at a much faster rate. This requires additional resources for municipal governments rather than limiting those resources. The problems that local governments face in the future [are] that urban problems are becoming increasingly complex and those problems are multiplying at a much faster rate than the rate of growth in population. The ability of the City of Gainesville to assess and reassess the types of services provided, the method of providing those services, and the level of services to provide will be certainly restricted by Proposition 1. The limiting of this ability comes at a time of restrictive budgets and at a time when citizens are expecting and even demanding higher levels of service."[5]

For another perspective, Floyd Johnson adds,

"The annual revenue increases contemplated by Proposition One are clearly inadequate to meet the future needs of Broward County. The Consumer Price Index, which measures increased costs for a family of four,

is not an accurate measure of the impact of inflation on governmental services. Also, when calculating the two-thirds CPI allowance we would be using an index that is two years behind the fiscal year being budgeted. In times of increasing inflation, government would be unable to keep up with rising costs."[6]

As a second issue, proponents argue that Proposition #1 would limit the growth of government by restricting the growth in government revenues. Additionally, they argue that taxes in Florida are high relative to the ability of Floridians to pay. In particular, proponents point to the doubling of state revenues and state spending over the last few years as evidence that the growth in government taxing and spending has outstripped the capacity of Floridians to support this burden.[8]

Opponents contend that both of these views are wrong because Proposition #1 will not curtail the growth in government, and tax burdens in Florida are not high.

Additionally, opponents make a strong case that Florida is not a high-tax state, but is instead a low-tax state. Dr. James Zingale, the director of economic and demographic research for the Joint Legislative Management Committee, provides the following summary data:

"1. Florida, with 10.4 million people, is the 7th most populous state and between 1972 and 1982, at 38.5%, had the fourth highest population growth rate of all states.
2. Florida ranks 7th in total personal income but 27th in per capita personal income at $10,165, which is just below the average per capita personal income for the United States, at $10,491.
3. Florida, at $801.02 per person, ranks 50th in per capita total general expenditures of state government and, at $1,468.20 per person, ranks 44th in per capita total general expenditures of state and local government.
5. Florida's rankings for per capita state and local expenditures by program area are:

police protection:	11th, at $75.65 per person;
health and hospital:	16th, at $169.35 per person;
fire protection:	21st, at $26.93 per person;
public education:	25th, at $2,689 per pupil;
highways:	39th, at $126.07 per person;
percent of personal income spent for education:	47th, at 3.55%; and
public welfare:	50th, at $98.60 per person.

6. Florida, at 60.88, ranked 48th in number of government employees per 1,000 population in 1982. The U.S. average was 69.88."[9]

A third argument presented by proponents is that Proposition #1 would curtail the subsidization of growth by government. Opponents say that this is a curious argument since few, if any, governmental units subsidize growth as a general policy — either explicitly or implicitly. For example, as James Harris notes,

"The county [Orange County] is moving to implement a complex impact fee program to produce [more] revenue from new growth and, for example, has increased connection fees to the sewer system by 400 percent in 3 years in response to federal and state mandates and federal court consent decrees."[10]

Furthermore, Paul Mashburn, president of the Florida Home Builders Association, stated that because of Florida's tax structure " . . . cities have had to turn to various sources of revenue. One of the big sources has been user fees, which I must say that the home building industry agrees to and accepts when they are used fairly. As was reported in August, user fees in 17 Florida cities have jumped 300 percent over the past ten years.

"We believe that when user fees are a true reflection of the services provided and when they can be earmarked specifically to the consumer — who, let's face it, is going to pick up the tab — they are an acceptable source of funding."[11]

While local governments may have subsidized growth in the past, this practice does not appear to be true today. User fees are widely employed in addition to the property taxes and other charges paid by new construction. Furthermore, as this author has pointed out,

there is no standard answer to the question of whether or not growth pays its own way. "The answer depends on a host of considerations including: (1) the kind of growth; (2) its value and tax base; (3) location; (4) timing; (5) the characteristics of those who will live in the development; (6) economic multiplier effects of the project; (7) the fiscal structure of the community where the project is located; and (8) other factors as well."[12] Additionally, all growth, at all places, in all periods need not be fiscally neutral. For example, there is a need for communities to provide for low-cost housing.

A fourth major argument offered by proponents is that Proposition #1 is flexible and will allow government to raise sufficient revenues to finance necessary services. Advocates point out that the proposition exempts many sources of revenue including federal grants and the cost of investments sold.

Furthermore, if state government reduces its levels of taxes and transfer payments to local governments, the revenue limits of Proposition #1 can be easily met at the state level. In addition, local governments could substitute direct taxes for the transfer payments they now receive from state government. In this way, the state government can meet the Proposition #1 revenue limits, and local governments will suffer no loss in real revenues.

Finally, proponents claim that local governments can readily spin off numerous functions to the private sector, thereby reducing their revenues and meeting the Proposition #1 limits.

Opponents argue that such claims are fallacious, because Proposition #1 will devastate the capacity of state and local government to raise revenues and provide services. Contrary to the claims of the proponents, Proposition #1 opponents do not find it flexible and point to difficulties in a forced divestiture of public enterprises.

After analyzing the impact of Proposition #1 on the state budget, James Zingale concludes that "the 1985 Legislature will have seven months after passage [of Proposition #1] to reduce revenues by approximately $2.4 billion, a reduction of 22.6 percent." He notes that such a reduction would be seven times larger than the holdbacks experienced in fiscal year 1982-83.[13]

Furthermore, Zingale points out that the long-term implications of Proposition #1 are even more severe than the short-term impacts. He notes,

"Amendment 1 will not result in a one-time only reduction in the size of government. Instead, over time, it will cause both the size of government and the services government provides to continually diminish. This is because revenues will necessarily fail to keep pace with inflation and population growth.

"State taxes were 7.3% of personal income in the historical base year [1970]. In 1983-84, taxes actually fell to 6.9% of personal income. If Amendment 1 had been adopted 10 years earlier, 1983-84 taxes would have fallen to 3.0% of personal income."[14]

As for flexibility, Zingale concludes that Proposition #1 provides little real maneuvering room.

"Florida's proposed tax expenditure limitation would provide very few exclusions. Amendment 1 specifically exempts the receipt of federal funds, bonds issued, loans received, and the cost of investments sold. No exceptions from the tax expenditure limit are provided for earnings on pension investments, state aid to local governments, replacement for cutbacks in federal aid, user fees or charges, taxes collected for local governments by the state, contributions, donations, or gifts. Many of these revenues are exempted from the TEL s [tax-expenditure limitations] in other states.

"Not only would Amendment 1 provide limited exclusions, it also contains the most restrictive growth formula of the seven constitutional TEL s. All of the constitutional formulas enacted in other states have recognized that a growth factor must be sensitive to the number of state residents, the rate of inflation, and, in all but one case, real productivity of the state's economy. Florida's Amendment 1, however, formally recognizes only two-thirds of inflation. The proposed formula makes no provisions in the growth limit for changes in population or changes in productivity of Florida's economy. While the amendment does allow governments to exceed the limit by referendum 'for specified purposes and amounts, for not longer than two fiscal periods,' the conference [Official Revenue Estimating Conference] considers the amendment to lack a permanent means of funding continued population growth and inflation."[15]

At the local government level, the problems of implementing Proposition #1 may be even more severe. Opponents say that the flexibility suggested by proponents does not exist in

practice. For example, Orange County Administrator James Harris provides the following analysis.

"The basic problem with setting forth the implementation program for Proposition 1 is that one is overlaying a simplistic and poorly devised amendment on a fairly sophisticated and complex set of urban county programs and problems.

"The Orange County budget is $437 million divided into 23 separate millages, utility funds, special assessments, up-front capital, special state grants, over 700 Municipal Service Taxing Units, lease-purchase agreements, lines of credit at banks, lease-back agreements, contributions for special services and the daily investment of funds to earn maximum interest.

"A county government is much more complex than the normal city, with not only five County Commissioners but also eight other elected officials. Some of these elected officials have direct fee revenues which are a part of the county revenues. The budget process is also complicated by independent elected officials who manage their own budgets, set salaries, maintain separate financial records and make their own purchases. Obviously, such independent authorities make an implementation plan extremely difficult. The county budget is also required to fund many state-mandated programs. Almost 50 percent of the Orange County General Fund has mandates of one kind or another. For example, we must provide space to the State Attorney and Public Defender and supplement funding for the Medicaid Program.

"The amendment simply takes a meat-axe approach to a problem which would require the skill of a brain surgeon. The major frustration in explaining the implications is that one must first understand the sophistication of the system, the effects of massive growth, the long-term drastic effects of then holding revenues to two-thirds of the Consumer Price Index, the impracticality of taking multiple-choice ballots to the voters and explaining each choice, the difficulty of even setting forth the election process in a 1,000-square-mile county where certain revenue questions may affect only the unincorporated area, only a small special district within the unincorporated area or possibly only the customers of a utility system.

"Above all else, the proponents repeat and repeat that the answer is to ask the voter every two years if you can exceed the revenue cap. How are you to hire competent policemen, firemen, engineers, utility workers or any category of skilled worker if their jobs are dependent on reselling the program every two years to an often disinterested public?"[16]

Furthermore, opponents note that a spinoff of local government enterprises will have both positive and negative aspects. For example, Washington, D.C. attorney Robert Jablon notes that if taxing units are forced to spin off their revenue-generating enterprises, they will be less able to provide services because the profits are transferred back to taxing units.

As Jablon states, "While it is a matter of debate as to what services government should provide, by keying tax limitations to 'revenue' the Havill Amendment [Proposition #1] would have the effect of increasing or decreasing the ability of the state or localities to spend money based upon the type of services they provide rather than upon a measure of tax burden, need or even the 'profit' from the sale of services."[17]

Finally, consider the following problem posed by James Harris.

"Let me give you a brief example. In Orange County we have collected in the past year some $28,000,000 in up-front funds from developers for new sewer capacity. From these funds the county now is constructing facilities which will not be available until next year. But, these funds are revenue to the county. They are a benefit to the present utility customers, and the new customers will meet the operating cost of the new facilities. But, the new customers are also a source of new revenue. Assuming we ask the voters of the county to approve this arrangement, what happens in two years when we probably must ask for approval to continue accepting the new customer service fees. If there is a "No," do we close the plant? Obviously, the environmental considerations will not permit this to happen. Do we reduce costs and violate state standards for operators and run the risk of poor treatment? Perhaps we simply abandon any hope for a coordinated, modern sewer system and fall back on privately owned and operated package plants, which generally proved to be a disaster in the 1960 s and early 1970 s. I cannot imagine how a series of private interests would meet the "no discharge" rule and attempt a $190,000,000 program which is now underway by the City of Orlando and Orange County. To understand that statement, you would

need to understand the many facets of the problem: EPA and DER regulations, federal assistance, federal and state approvals, condemnation requirements, bonds, design problems, right-of-way utilization and, ultimately, the operation of the system. Government is necessary for a variety of reasons, and one of them is the coordination of community interests and, if need be, the mandatory compliance by citizens with programs which are for the overall good of the community."[18]

Finally, proponents claim that the enactment of Proposition #1 will force government to be more efficient by restricting government revenues and allowing increases above the limits only through referenda.

Opponents argue that this scenario is not true. As noted above, government administrators contend that Proposition #1 will produce a proliferation of single-purpose special districts, and that such a service delivery system will not be efficient. For instance, Floyd Johnson notes,

"Ironically, this approach would likely result in increased costs to the taxpayer due to increased administrative costs, built-in profit margins and the lack of accountability to the public as currently generated through the annual budget and elections processes. For example, if garbage collection is given to the private sector, fees could no longer be collected on the tax bill; uncollectibles would increase and increased billing costs [would be] passed on to the consumer. Also, the proliferation of separate districts and authorities will add to the public's confusion over who provides what service."[19]

As for the premise that Proposition #1 would create efficiency in government, opponents claim that the opposite would result. Reflecting on conditions in Broward County, Johnson argues,

"Municipalities in Broward County would also be hard-hit by Proposition One. Many cities have been growing at phenomenal rates due to population shifts from the eastern to western portions of the County and through annexation. It is conceivable that faced with Proposition One, some cities might opt to deannex some of their incorporated areas which places the burden of providing municipal services back on the County. Aside from the added fiscal pressure this would place on County Government, it would also compound an already inefficient service delivery system for unincorporated area residents." [20]

FOOTNOTES

[1]The conference, Proposition #1 — The Economic and Legal Issues was held on November 4, 1983 in Lake Buena Vista. It was funded and sponsored by M. G. Lewis and Company of Winter Park, and organized by the Bureau of Economic and Business Research. Proceedings of the conference were published in *Proposition #1 — The Economic and Legal Issues*, Bureau of Economic and Business Research, University of Florida: Gainesville, Florida, 1983.

[2]James Harris, untitled comments, in *Proposition #1 — The Economic and Legal Issues*, *op. cit.*

[3]Floyd Johnson, "Proposition One Conference," *op. cit.*

[4]*Ibid.*

[5]George Morgan, "Proposition #1, The Economic and Legal Issues, Implications for State and Local Governments," *op. cit.*

[6]Johnson, *op. cit.*

[7]Johnson, *op. cit.*

[8]Schulte, *op. cit.*

[9]James Zingale, "Report of the Revenue Estimating Conference — The Fiscal Impacts of Proposition #1 on The State of Florida," *op. cit.*

[10]Harris, *op. cit.*

[11]Paul E. Mashburn, Jr., "Proposition #1 — The Economic and Legal Issues," *op. cit.*

[12]Hank Fishkind, "Managing Florida's Growth: An Introduction," *Business & Economic Dimensions*, Vol. 19, No. 3, 1983, pp. 2-7.

[13]Zingale, *op. cit.*

[14]Zingale, *op. cit.*

[15]Zingale, *op. cit.*

[16]Harris, *op. cit.*

[17]Robert Jablon, "Possible Unintended Consequences of Florida's Havill Amendment," *op. cit.*

[18]Harris, *op. cit.*

[19]Johnson, *op. cit.*

[20]Johnson, *op. cit.*

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